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FOREIGN AID AND THE DEVELOPMENT OF THE REPUBLIC OF KOREA: THE EFFECTIVENESS OF CONCESSIONAL ASSISTANCE

AID SPECIAL STUDY NO. 42

by

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U.S. Agency for International Development

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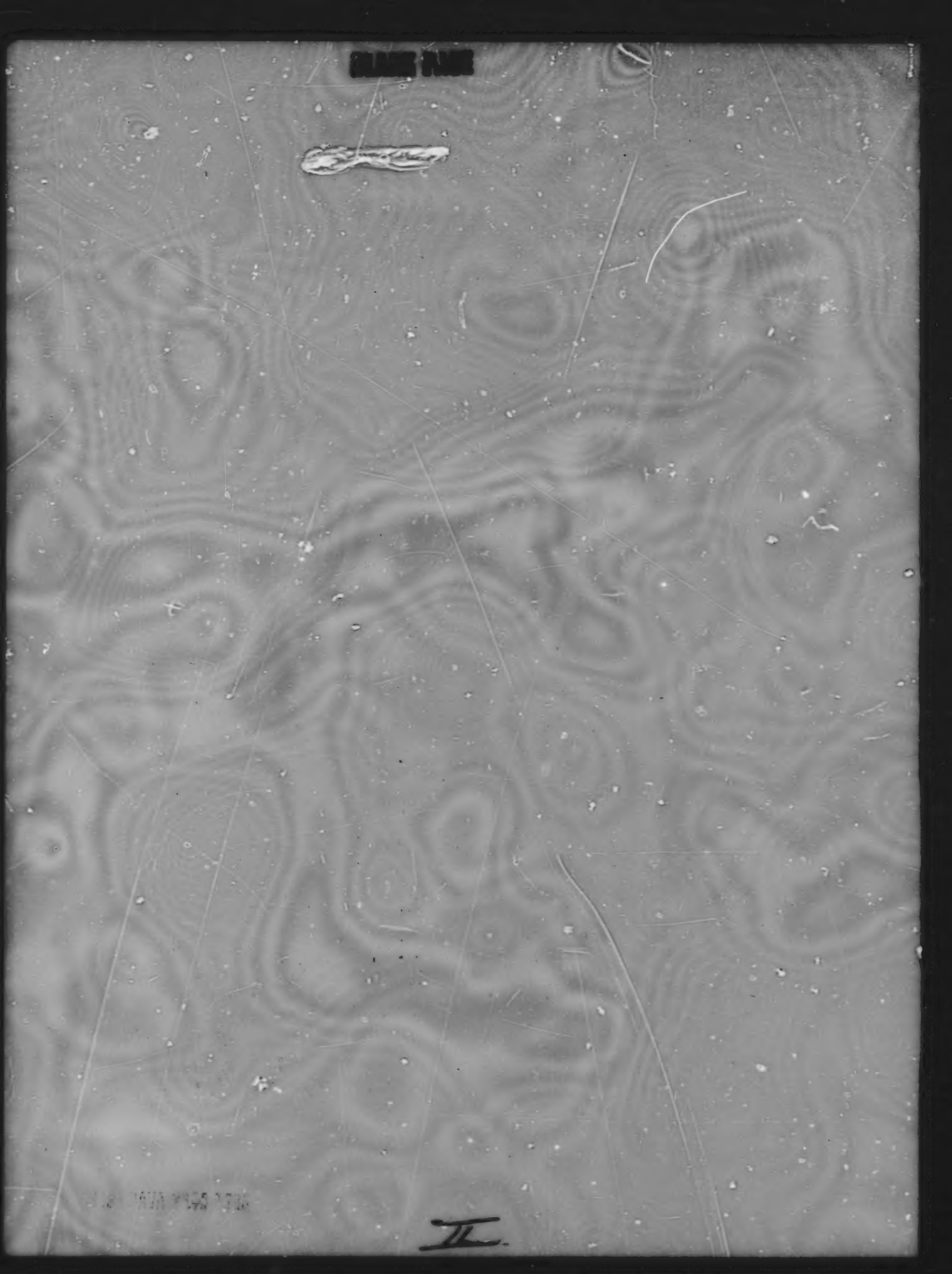
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PREFACE

The international significance of the Korean development experience lies, most importantly, in the hope that this remarkable economic performance gives other nations in their quest for national economic progress and in improving the lives of their citizenry, and, secondarily, in the information it imparts to donors or lenders on how to improve the development process or ensure that funds are repaid.

This hope is not spurious and Korea is not unique, but there are dangers in lightly abstracting from the Korean experience without carefully distinguishing between those elements that are uniquely Korean and general lessons that might be learned from that effort. This paper hopes to clarify some of the issues. Inevitably, some will remain clouded.

Korean economic development in its various attributes has perhaps been more studied than similar national economic changes in the contemporary world. Ten volumes have been published by the Harvard University Press alone for the Harvard Institute for International Development; the Korean Development Institute, a collaborator in those studies, has its own impressive publication list. There are more Ph.D. dissertations in the United States on Korean economics than in any other field of Korean studies. There is, of course, a whole body of literature in the Korean language, and Korean economics is also a subject for both the Japanese academic and popular presses.

This interest in Korean development has reflected economic growth and bred proliferation of academic publications. The literature is now so extensive that it is difficult, except for the specialist with command of at least three languages, to marshal the available facts and their various interpretations. Even with these skills, the analysis of Korean economic development largely depends on intuitive insight and interdisciplinary sensitivity. It is both an art and a science, and the balance between the two is a matter for either dispute or conjecture.

As one who has been involved in evaluation of development activities for many years, I believe that there has always been an intellectual gap in the analysis of what a project or a program accomplished--between what happened in a country, area, or sector, either for its beneficiaries or in the aggregate--and the causal connection between the planned activity and the changes. So many extraneous, but relevant, factors impinge on project results in the nonlaboratory setting in which they exist that it becomes difficult, if not impossible, specifically to attribute the results to the project, a program in related

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fields, changed government or donor policies, aspects of the international economic scene, or a complex combination of these factors.

Demonstrating that growth and, with more difficulty, increased equity occurred over a prolonged period is relatively easy, but it is infinitely more complex to separate the causal connections and virtually impossible meaningfully to quantify the uses of donor funds in isolation from other possible causal factors.

Intellectually the task is difficult, but progress has taken place and there has been a generally positive donor record in Korea. Observers of the Korean scene perhaps can be satisfied with the conclusion that the "hard numbers" economists desire are available only in the aggregate and that they should not be too disheartened. Causality between donor activity and growth can be reasonably inferred, if not proven.

For these reasons, this essay is highly personal, not only in its interpretation of Korean growth and distribution, but also for the implications that it draws from Korea that might be applicable to other societies.

I would like to thank both present and past members of the Korean Government, including the staffs of the Ministry of Finance, the Economic Planning Board, the Bank of Korea, and the Korea Development Institute for their kindnesses and assistance. I have refrained from naming individuals here, for the conclusions are solely those of the author, and errors of fact or interpretation should not be attributed to others or their institutions.

I would also like to thank members of AID's Center for Development Information and Evaluation for reading the early drafts of this paper, and John Bennett of the Korea Development Institute of America and Paul Kuznets of Indiana University for their extensive comments on the drafts. They all have immeasurably improved it, but are, of course, not responsible for any errors or sins of commission or omission.

To the Task Force on Concessional Flows, Robert Cassen of the University of Sussex, AID, and the World Bank, I offer thanks for allowing me to increase my understanding of Korean development. This report was prepared under the auspices of the Task Force on Concessional Flows; the field work in Korea was supported by the World Bank while the author remained an employee of AID. The views expressed herein do not reflect those of any agency of any government or any donor, multilateral or bilateral.

Bethesda, Maryland
September 1985

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SUMMARY

By any performance standard, the Republic of Korea overall is justly considered an economic success. The forces that produced sustained growth are complex; some are rooted in Korea's unique historical and cultural milieu, but some lessons may be abstracted from the Korean experience.

Korea emerged from the partition after World War II and the destruction of the Korean War economically devastated, bereft of heavy industries and natural resources--a military and economic ward of its principal donor, the United States. In the long run, however, its economic disadvantages were offset by noneconomic factors--an ethnically homogeneous population, linguistic unity, a high value placed on mobility through education, and the principle of a meritocratic state. Although mired in abject poverty, its people shared a remarkably equal distribution of the assets that remained because of the land reform inaugurated by the U.S. military government, the material destruction of the war, and the spread of primary education.

Korea followed a policy of import substitution until 1961. Almost completely dependent on donor support for food and consumption goods, as well as raw materials and military assistance, Korean policy stressed the maximization of foreign assistance, including an unrealistic set of foreign exchange rates that effectively discouraged exports. Charges that donor support was concentrated on consumption goods and that the PL 480 food import program retarded realistic agricultural pricing policies were generally accurate, as the policy goals of donor and recipient were different.

Following the military coup of 1961, President Park internally consolidated and centralized economic and political power; externally, he shifted economic policy to an export promotion program, perhaps because he was unsure of continuing U.S. support. Park did this partly because import substitution had obviously failed and he owed nothing to the interests supporting that program, and in part to distance his Government from the United States. Donor support was diversified, with normalization of relations with Japan a critical element in the introduction of capital and technology. Foreign investment was encouraged, the first IBRD loan signed, and export targets rigorously set and meticulously enforced. President Park's concentration on the economy, which he was able to control through administrative, political, and social means, as well as through taxes and a Government allocation of institutional credit, became exceedingly effective as he seemed to regard it as his avenue to political legitimacy. Growth of Korean GNP, exports, overseas construction earnings, and manufacturing capacity has since attracted the admiration of foreign observers, especially given Korea's deft

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handling of the crises associated with the two oil price increases, a worldwide recession, and a large defense burden.

Although relatively favorable, income distribution worsened as the Government virtually ignored the rural sector until the early 1970s. Figures on income distribution in Korea are badly flawed, as they are in many countries. They show, however, that the creation of urban employment in manufacturing, followed by later subsidies and development in agriculture, lowered the percentage of the population in poverty from 40 to 10 percent. Income disparities are likely to grow with the elimination of pricing subsidies.

Equity in Korean society was greatly enhanced by the creation of employment opportunities, a process in which donor support was an important but unquantifiable factor. There exist, however, important rural and urban income disparities and regional income differentials. Equal access to the marketplace is lacking as the Government has control of institutional credit and allocates it largely to the successful major industrial and trading conglomerates, because they are easier to work with in achieving Government targets, such as those in heavy industry. Women are denied equal pay and status in the development process; labor is suppressed.

The importance and effectiveness of the donor role have shifted over time. For the first decade and a half after liberation, donor (predominantly U.S.) support was essential to the survival of the state and the modest growth that took place. This support was eminently successful in land reform, although it never reached its full potential, as payments to landlords were not used productively to their capacity. Acrimonious disputes between donor and recipient marked economic policy negotiations in the earlier period.

The increasing success of the Korean export drive under President Park encouraged commercial lending and foreign investment, so that concessional assistance became extremely modest. The role of multinational lending to Korea is considered by the Government to be an important attraction for commercial lenders.

There is general agreement that since the early 1960s Korea has been an effective user of concessional assistance, by any definition of the term. Foreign assistance has been of varying importance and impact in different fields.

Policy advice was generally followed if it was seen as serving Korean interests and supported the distribution of power and the national directions already determined by government. It was particularly effective when it was viewed as having been

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internally generated and was used by one part of the Korean Government to strengthen its views in relation to other governmental entities.

Technical assistance personnel, despite problems of language and knowledge of the bureaucratic culture, could be effective if they provided the technical means by which to implement effectively the predetermined policy directions of the Government. Training and human resource development were universally regarded as effective and one of the most important elements of concessional aid.

Donor support has generally followed Korean Government policies and priorities. Emphases have changed as Government priorities have shifted, but (with few exceptions) donors have followed the Government's lead. Aid levels in the Korean context have had little correlation with the effectiveness of foreign assistance.

Korea is not a simple model that can be emulated by other nations, but it has been a model user of foreign assistance. There are, however, lessons from the Korean experience. Although multilateral aid agencies have an edge in both prestige and flexibility over major bilateral donors, there is need for reform in both camps. The search for universal solutions to problems that may be specific continues to plague both types of donors.

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GLOSSARY

ADB - Asian Development Bank

chaebul - conglomerate

eup - market town

gun - county

hangul - Korean alphabet

hanja - Chinese characters

IBRD - International Bank for Reconstruction and Development (World Bank)

IDA - International Development Association (World Bank Group)

ILO - International Labor Organisation

IMF - International Monetary Fund

Saemaul - New Community Movement

UNDP - United Nations Development Program

VAT - value-added tax

yangban - gentry

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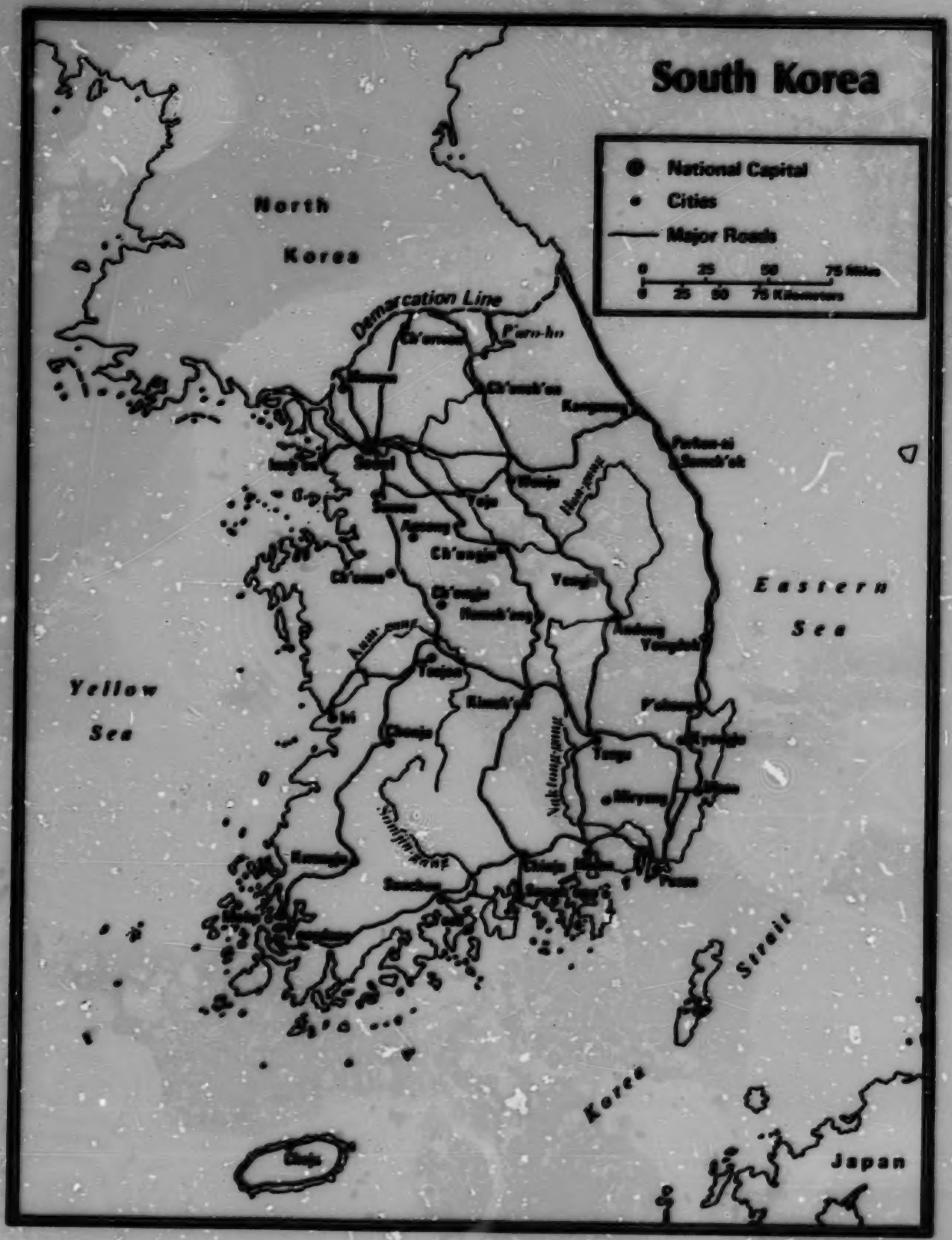

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1. INTRODUCTION

Korea has been widely recognized both publicly and professionally for its economic accomplishments. Some more popular observers have likened the rapid, indeed spectacular, growth of the Korean economy in the past two decades to the rebirth of the phoenix from the ashes and destruction of the Korean War, or have alluded to the "miracle on the Han."[1] Others, more academic, stress the continuity of the Korean tradition, noting that various policies and personalities helped unleash Korea's potential.[2] Certainly, development economists and specialists regard Korea's national economic performance as one of the world's outstanding successes. There is no dispute over its sustained and high growth for over two decades against overwhelming odds: political turmoil; heavy defense burdens, international insecurity; the world's third highest population-to-land ratio; and the highest per capita-to-farm-land ratio in the world, excluding the city states like Singapore.[3]

1.1 Background

The Korean development experience poses not so much the broad issue of what happened, on which there is general agreement,[4] but rather (a) why and how it happened; (b) whether the sweeping generalizations of remarkable macroeconomic developmental success reflect or mask important differences below the national level; (c) the role of foreign aid agencies, multilateral and bilateral, in this process; and (d) most critical, because development is about people, what specifically happened to the people of Korea in this rush to succeed. There may also

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[1]For example, see Michael Koen, Korean Phoenix: A Nation From the Ashes (Englewood: Prentice Hall International, 1977); or Jon Woronoff, Korea's Economy: Man-Made Miracle (Arch Cape, Oregon: Pace International Research, 1983).

[2]The 10 volumes of the Harvard University Press "Studies on the Modernization of the Republic of Korea 1945-1975" generally fall into this category.

[3]Edward Mason et al., The Economic and Social Modernization of the Republic of Korea (Cambridge: Harvard University Press, 1980), p. 226.

[4]Even the generally critical economists with dependency theory or class concerns would admit the record on overall growth, although they would question the orientation and the price exacted.

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be important lessons, extrapolating from the available Korean evidence, applicable to other nations aspiring to similar goals. Analysis of the operating principles and methods of the various donors might also lead to recommendations on promoting their efficacy.

This essay, then, must be concerned with all of these issues, but it is particularly focused on the role that foreign concessional assistance, multilateral and bilateral, played in this process. It will analyze the growth of the Korean economy, especially in the context of a remarkable shift in development strategy beginning in 1961, one that has been characterized as "perhaps the most dramatic and vivid [policy] change that has come about in any developing country since World War II."[5] Within this context, it will explore the issue of distribution or equity in Korean society, a question on which existing data are far less reliable than those on growth. To understand the critical developmental policy shifts in Korea, their historical context must first be examined.

Within this broad ken, an analysis of the role and benefits accruing to women; the place of the private sector in Korean development; the role of trade; how policies were formulated and the influence, if any, of foreign assistance agencies on them; and the efficacy of technical cooperation or assistance within the Korean context will also be examined. The growth of Korea has been mirrored in the growth of literature on Korean development, but this essay will not attempt to reproduce or summarize this vast corpus of material. Rather, it will focus on the effectiveness of foreign assistance in meeting the broad growth and equity targets generally of concern to the four major donors to Korea: the World Bank, the Asian Development Bank (ADB), the United States, and Japan.[6] The economic influence of each of these donors has differed over time, with the United States no longer providing major assistance to Korea.[7]

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[5]Anne Krueger, The Development of the Foreign Sector and Aid (Cambridge: Harvard University Press, 1977), p. 82.

[6]Other donors have been relatively minor. The UN has provided continuous assistance, but for a period that support was coordinated through the UN Command, which was American controlled. Levels of support through the UN Development Program ran between $3 and 4 million per year from 1979 to the present. The Federal Republic of Germany has provided $300 million in support since 1961.

[7]AID country support ceased in 1975, but AID, through private and voluntary agencies and through the "American Schools and Hospitals Abroad" program, has provided modest assistance.

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The complexity of the Korean development process, as documented in the burgeoning literature on the subject, precludes the narrow interpretation that the forces leading to such rapid growth were solely the result of textbook-like economic factors. The diverse pressures shaping Korean economic expansion require a politico-economic analysis, with additional consideration of its sociocultural background, although development agencies prefer to use quantifiable economic indicators.

As one author noted:

> It is hardly surprising, therefore, given the complexity of relationships and the obvious influence of institutional and cultural factors that economists treat 'government' as exogenous and that neither economists nor political scientists have a paradigm that can satisfactorily explain how the regime or government influences economic development.[8]

Although donors may wish to eschew political factors in providing assistance, and this is especially important for multilateral agencies, understanding the political and social forces that shape economic policy and development is quite separate from providing assistance because of such factors. It is the former that is of concern here, for if lessons are to be learned from the Korean development process, they will only be applicable if they relate to the noneconomic forces in other societies.

1.2 On Folklore and Definitions

A wide range of quasi-informed development folklore has evolved and been articulated about Korean growth. These views, often expressed at high academic or government levels, tend to obscure those elements of accuracy included in such sweeping generalizations as those suggesting that the causes of Korean growth are solely or essentially rooted in the efficacy of the private sector, a Confucian or "post-Confucian" society,[9] strong authoritarian leadership, pricing or exchange rate policies, or are only attributable to the success of foreign assistance, a desideratum devoutly to be wished by some staff of donor organizations.

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[8]Paul Kuznets, "The South Korean Model of Political and Economic Development: Economic Aspects," Mimeographed, November 1983 p. 36.

[9]Roderick MacFarquhar, "The Post-Confucian Threat to the West," Economist, February 8, 1980.

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One authority on Korea, in an exuberance of enthusiasm, could write, "The almost irresistible conclusion from Korean development experience is that with proper economic policies and a continuation of reasonable international aid levels most developing countries can achieve at least a 6 percent annual growth rate, and many countries could sustain growth rates as high as 10 percent."[10] Worldwide experience since that time would challenge this lesson as neglecting other, important factors in the Korean experience.

The task of analysis is further complicated by the absence of clear, distinct definitions, including those as fundamental to this study as economic assistance, concessionality, and effectiveness, the last of which will be defined subsequently. Aid (as distinct from commercial credits) from all sources to Korea since liberation from Japanese colonial rule in 1945 to 1983 has probably totaled over $26 billion,[11] much of it in grant or concessional form. About one-third of this amount was military assistance. From 1962 until 1981, Korea received $41.7 billion in foreign lending and grants, of which one-third came from public and two-thirds from commercial sources.[12] Even this figure seems low, because it approximated Korea's external debt in 1981 and most assistance before 1962 was in grant form.

In considering the role of foreign aid, how does one calculate or account for any influence of military assistance in economic development? Although some forms of military support can be excluded from any economic analysis, there are other forms that are more ambiguous. The training of thousands of military officers in the United States may have had a significant impact on these individuals when they left the services and assumed important roles in the civilian government and economy. The early supply of skilled labor, such as electricians and mechanics, came from the military. Social mobility in Korea in the

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[10]Gilbert Brown, p. 265, as quoted in Mason et al., p. 471. Mason et al. also dismiss the sweeping generalization of this position, although admitting the importance of sound policies.

[11]Total assistance is calculated as follows:

U.S.	$13.8 billion
IBRD	5.3 billion (through 3/84)
Japan	4.5 billion (through 1983)
ADB	1.4 billion (through 1981)
Other (Germany, UNDP, voluntary agencies, etc.)	1.0 billion (estimate)

[12]Asian Development Bank, Study of the Bank's Operational Priorities and Plans for the 1980's, Korea Country Study, August 1982.

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past two decades has been possible through the military. Large quantities of surplus U.S. military equipment had economic impacts. The role of the Korean military and foreign military aid was pervasive and affected the economy in ways not adequately defined. How important the military experience of working within a strong hierarchical command structure was for effective implementation of developmental projects, a hallmark of the successful Korean experience, deserves consideration. So too the effects of military mobilization are important in analyses of labor supply and employment issues. An assessment of military assistance is not included in this paper: its importance merits and awaits careful study.

How also does one account for the important effects of the Vietnam War on the Korean economy and its foreign exchange holdings at that time, as well as in the training of an overseas construction industry that was later to play such a vital role in the Middle East and elsewhere (about $13 billion in 1981 and 1982)? Can Japanese "reparations" be considered as concessional assistance? How do we calculate or evaluate the contributions of the relief and developmental operations of literally hundreds of voluntary organizations and foundations that assisted Korea? These issues are not resolved here, although their importance should not be overlooked or underestimated.

Although it is likely that the real (as opposed to nominal) value of foreign concessional assistance, especially in the earlier period, may well have been overestimated,[13] from the United States alone Korea received more assistance per capita than any other country in the world except Israel and Vietnam. This assistance was even more important in the 1950s because of the absence of other donors, commercial credits, and foreign investment, let alone the inflation since that period.

The definition of the concessionality of foreign aid seems to offer less controversy because it ostensibly is determined by how many resources must be repaid. It clearly involves interest rates below the international market, but may also include long repayment schedules and grace periods. It is also evident that "concessionality" may be defined by field or sector: commercial lending may not be available for certain types of projects (e.g., health). The economic returns may not be readily apparent, and thus concessional assistance may be appropriate. Concessional

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[13]See Young-iob Chung, "U.S. Economic Aid to South Korea After World War II," in The United States and Korea, Andrew Nahm, ed. (Kalamazoo: Western Michigan University, the Center for Korean Studies, 1979). There is not only the issue of the attribution of foreign aid, but also the exchange rate(s) at which it was calculated. This was a critical, divisive issue in the 1950s.

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assistance thus may transcend the normal International Development Association (IDA) context and may also be influenced by internal factors. International market-rate lending to Korea, although at times not concessional solely in interest rate terms, usually turns out to be so when re-lent internally, at least in comparison with the curb or informal market. Because the demand for credit exceeds the officially controlled supply and the Government has had virtual direction over the institutional credit mechanisms within Korea, including those originating from abroad, credit in this monopoly situation has tended to be highly concessional compared to the informal market and is used to shape and direct economic investment. Even institutional rates may differ. For example, foreign funds to the Korea Development Bank in 1980 were re-lent at 9.1 percent interest, but in the same year Government equipment loan interest rates were 21.0 percent. In that year, the Medium Industry Bank re-lent foreign funds at 8.5 percent, Korean Government funds at 19.5 percent, and their own funds at 24.8 percent.[14] The complexity of interest rates within the same organization, but reflecting different origins of the funds, is also evident in the National Agricultural Cooperative Federation.[15] The Government uses subsidized interest rates to encourage specific exports. Korea continued to borrow from IDA as late as 1974, but the bulk of lending to Korea under IBRD auspices was at the prevailing interest rates for middle-income countries, although it was somewhat below commercial rates. The definition used in this paper will include such lending to Korea but obviously will exclude loans from private commercial banks and commercial investment.

This paper is divided into considerations of the two main analytical elements of the study: growth and equity or distribution. This division allows the paper to be more focused than a straight historical analysis. Aid effectiveness issues that cut across these two aspects of the report will be treated toward the close of the paper in a separate section.

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[14]Leroy Jones, Jae-Bul and the Concentration of Economic Power in Korean Development: Issues, Evidence and Alternatives, Consultant Paper Series No. 12 (Seoul: Korea Development Institute, July 1980), p. 92. Multiple interest rates depending on the source of funds have been a common characteristic of Korean institutions. Also see David I. Steinberg et al., Korean Agricultural Services: The Invisible Hand in the Iron Glove. Market and Nonmarket Forces in Korean Rural Development AID Project Impact Evaluation No. 52 (Washington, DC: AID, March 1984).

[15]See Steinberg et al., Korean Agricultural Services.

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1.2.1 Growth

Growth is defined for purposes of this paper as the expansion of the gross national product in real terms in the aggregate and on a per capita basis. Growth does not necessarily imply self-sustaining expansion of the economy, and thus development. Growth also subsumes the increases in the productivity of land, labor, and capital, as well as the mobilization of savings for investment. It also includes the allocation of these resources and the capacity of the society to invest and manage such allocations and production. Entrepreneurship is thus one element of the growth process. Growth is also concerned with the increases in the rates and types of technological change, and it must also include discussion of the capacity of the state to generate foreign exchange and the volume and changes in the composition and direction of trade.

The reliability of the figures on aggregate growth in the Korean society is relatively good in comparison with other nations. Although there are some gaps, inadequacies, and inconsistencies, and entrepreneurial and managerial functions can hardly be quantified, a clear picture of Korea's overall accomplishments is possible.

1.2.2 Equity

Growth deals with aggregate figures; equity disaggregates those figures in various ways. Equity is distribution, but distribution that transcends funds and also includes other factors. Equity in development terms may be defined as participation in and the shared access to the resources, benefits, decisions, and costs associated with the development process in economic, social, and cultural spheres, and the potential mobility to partake of social and economic change. Equity developmentally is not necessarily equality, but is more akin to an admittedly ill-defined concept of "fairness." Equity is thus not simply limited to aspects of income distribution, although in many societies income is its most obvious manifestation and in development agencies the normal focus of inquiry, when it is considered at all. Income is, after all, only one aspect of that which is distributed.

Perhaps more important than the rather static data that analysis of the income of various deciles of the population or Gini coefficients provide at any single point are such issues as (a) under what conditions can income be enhanced (and who has control over those conditions if they exist); (b) what types of social and economic mobility exist in that society and are they increasing; and (c) how much and what kind of access do indivi-

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duals have to the social services generally subsumed by the rubric of basic human needs?

These issues are positively phrased. The converse must also be explored: who benefited less or sacrificed more for growth in the society? Any analysis must also determine not only who gets how much out of growth, but what the obstacles are to shared access and whether such deterrents are increasing or diminishing. For this paper, the issue of the donors' roles, if any, are particularly important.

Social issues are salient as well: to what degree has there been equal access to critical services, such as education or health or amenities such as electricity, and what role has the government played (or not played) to ensure that these services were equally available in some appropriate manner? Did, for example, agricultural extension workers provide broad regional and farm coverage? Was fertiliser available to all?

An issue not normally discussed in economic papers is that of social mobility: can one rise by both income and class (status or prestige) within the society and through what means? Equity in sum is related both to economic and social reality and to hope as well; it is both fact and perception. All of these questions are relevant to Korea and will be treated, if only briefly, below.

We will consider in this paper several aspects of equity: income distribution as disaggregated by income decile (the most traditional method for viewing equity), by urban and rural differentiation, and by geographic region. Differences, if any, between income distribution within the urban sector, such as in various types of manufacturing and between manufacturing and the service sector, and by sex within each category, might also be informative.

If there are no important ethnic distinctions in Korea, there are vital regional differences, the origins of which go back over 1500 years and the saliency of which remains both economically and politically evident today. The general availability of employment (and its possibility by region, sex, and training) is one other aspect of equity, as is access to such jobs and the means to acquire the skills necessary to qualify for such activities. Equity should also be viewed in terms of access to the market; that is, is the market reasonably accessible to all, and if credit or other incentives are provided, especially by the state, is there discrimination in their allocation? Further, if the government sets prices for producers or consumers, who secures the benefits or shoulders the burdens? If there are subsidies involved, how are they accounted for and who immediately or eventually pays the bill? The final economic issue concerns the equitable sharing of the costs of running the state--how is the tax burden allocated?

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1.3 Factors in Korean Growth and Equity

Korea had several important advantages that, in retrospect, were critical to both the growth of the economy and the distributive patterns related to such economic changes. Although they are not necessary and sufficient preconditions of rapid development, and few observers were prescient enough to anticipate their relevance, the Korean experience indicates that these advantages may have accelerated the process.

1.3.1 Ethnicity and Culture

Korea's singular advantage over many other societies, one that has important implications for both growth and equity, is that Korea is the only country in Asia, and one of the few developing countries in the world, that is essentially ethnically homogeneous.[16] Over the centuries, Korea has evolved into a society in which there are no significant minority groups that have traditionally been disadvantaged,[17] no groups that have been cast outside the mainstream of the society. Conversely, there were no different peoples who developed a commanding or exploitative economic or social role. There were, thus, no ethnic impediments to economic development or the distribution of its fruits, and no ethnic scores that had, in nationalistic terms, to be settled. Korea fortuitously avoided the dilemma of having to address the equivalent of the Indians in Burma, the Chinese in Indonesia, or the Tamils in Sri Lanka. The colonial Japanese were repatriated by an occupying military power, the United States, and quickly vanished from the internal economic scene.

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[16] This is an overly simplistic definition of ethnicity, which may shift with time and circumstances. For this analysis, however, it is essentially accurate. There is, of course, a large body of literature on this subject regarding individual developing societies but, significantly, little on Korea internally.

[17] The only minority group was the Chinese, who in the 1960s numbered some 22,000-25,000. They were from Shantung Province and were significant neither economically nor socially. There are considerably fewer left because of emigration. Even Japan, considered comparatively homogeneous ethnically, has its eta and Ainu populations and its Korean and Chinese minorities.

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This single ethnicity has meant that education could be focused and the population mobilized with relative ease. There were no insuperable problems of linguistic diversity that retarded advancement through education in a national language that, because it had been suppressed by the colonial power, acquired added piquancy, or indeed the universal and rapid expansion of education throughout the state, with important implications for the future mobilization of labor for industrial development. Regional accents in Korea are more a cause for humor than for rancor.

An obverse developmental hypothesis based on Korea may thus be formulated: countries that have ethnically diverse populations will probably find economic growth with equity more difficult to achieve, manage, and sustain. In such circumstances, donors will have to be sensitive (with resultant staffing implications) to the nuances of working with a central government to affect positively, or disadvantage as little as possible, ethnic groups on the periphery. The balance between ethnicity and distributional economics is indeed often delicate.

Korea's comparative developmental advantage extends to many other, related areas. There have been no vituperative religious splits in Korea that have proven economically or socially divisive, and there has been none of the religious conservatism that has militated against change, economic or social, in other societies. Christianity (both Protestantism and Catholicism) has been an important indicator, but not determining element, of change. Its growth has mirrored Korea's economic expansion, although a causal relationship between the two is not demonstrable.

Ethnic cohesion toward the external world, despite extreme internal factionalism, has been characteristic of Korea for a thousand years. In the face of external cultural threats from its neighbors, Koreans have shared a strong sense of "Koreanness," which has given them relative cultural cohesion. This has had important developmental and mobilization implications when Korea has been externally threatened.

The ardent desire for reunification between North and South Korea is one obvious manifestation of this basic cultural unity. Yet the perceived military threat from North Korea has given substantial impetus toward attainment of both the growth and equity goals of the Republic. In some sense, the large military expenditures, one-third of the budget and up to 6.5 percent of GNP,[18] and the continued mobilization of the fifth largest standing army in the world are in part offset by the drive to

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[18]Mason et al., p. 184.

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achieve the political goal of succeeding economically, and to do so equitably.

Three other factors have been critical in promoting longer term, relatively equitable economic growth. These are land reform throughout the Republic; equal social, physical, and gender access to primary education; and a meritocratic government service (and similar employment in many quasi-governmental institutions, such as banks), the primary access to which was through an impartial examination system. The first two items were assisted by foreign donors, and the last is a contribution to world culture through the Confucian-oriented state, reinforced by contemporary western values.

1.3.2 Land Reform

Foreign assistance began in 1945 with the liberation of Korea from its colonial master, Japan. The U.S. military government, prior to the formation of the First Korean Republic in 1948, had initiated two processes that were based on policy decisions inspired from abroad. They were, in fact, fundamentally different, for example, from the relief assistance provided or fertilizer imported; the former was transitory and the latter simply the logical extension of the modernization process begun under the Japanese. Both processes were also well received internally and were to have profound effects on Korea that continue to the present.

Of fundamental importance was land reform, a two-stage operation, the first step of which was to distribute to the Korean farmers land that had been under Japanese control or ownership. This has been called "without doubt, the most significant accomplishment of the U.S. Military Government."[19] The second stage, which was completed after the armistice following the Korean War, broke up the larger Korean yangban (gentry) estates, leaving Korea with a relatively equitable rural income distribution pattern. A limit of 3 hectares was set for ownership of agricultural land. Full ownership was only 13.8 percent in 1945, but 73.6 percent in 1960.[20]

Although land ownership had strong emotional underpinnings in Korean society, the value of agricultural land was very low

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[19] Ibid, p. 169.

[20] On land reform, see, for example, Choi Moon Hwan, "A Review of Korea's Land Reform," Koreana Quarterly, Spring 1960; and Mason et al., Chapter 7.

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because Government prices for rice were essentially below the costs of production, a situation allowed to continue because of a massive U.S. food import program.[21] Thus, investment in rural real estate was not economically sound until the 1970s, and land reform met with little major opposition. Although an erosion of owner-operated farms and a perceptible rise in tenancy have occurred since the reform, as well as pressures to raise or eliminate the ceiling on land ownership to make mechanization more feasible and thus increase the productivity of labor, Korea's relatively egalitarian rural income figures (however flawed) today still reflect this positive policy shift.

In economic terms, the land reforms probably lowered production for a short period as the state could not efficiently replace the support provided by the landlords in supplying seed, fertilizer, and credit. In the longer term, however, it prompted aspiring mobile people to move to urban areas, induced investment in urban endeavors, politically placated the rural population, and may have raised farm productivity when pricing and other factors were in place.

The landlords were paid in Government bonds that rapidly deteriorated in value. This was, in effect, income redistribution, not only land reform, and thus was important for the relative equality of income distribution in the highly agrarian society that was Korea following liberation.[22] Landlords retained their social, if not economic, standing, and many of them invested their resources in the modern equivalent of the imperial examination system of the Yi Dynasty--modern, Westernized education for their children--and urban real estate.

This reform was inspired from abroad. The examples of the American-instituted reforms in Japan and Taiwan were the models, but the saliency of the reform was also in part prompted by a previous North Korean land reform that politically could not be ignored in the South, as well as (in its second phase) by the reform effectively crippling Syngman Rhee's yangban political opposition.

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[21]Sung Hwan Ban et al., Rural Devlopment (Cambridge, Mass.: Harvard University Press, 1980); and Mason et al., p 11.

[22]Mason et al., p. 238. In hindsight, of course, it might have been better. Payments to landlords could have fueled industrial growth, and land fragmentation could have been eliminated, but despite these deficiencies, the achievement was noteworthy.

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1.3.3 Education

The second critical aspect of foreign developmental assistance was the expansion of the primary educational system, which the American military government thought would help "democratize" Korea. Exploited by the Japanese and denied access to education in Korean, the Koreans had a pent-up demand for education that exploded as soon as it was politically feasible. In the closing days of the colonial period, even the right to maintain their Korean language and names was denied in a Japanese effort to integrate Korea into the mainstream of the Japanese Empire--a process that can accurately be called attempted cultural genocide.

This educational demand, which had its origins in a value system heavily dominated by the Confucian concept of the importance of learning, was in part met through the rapid construction with foreign aid of a primary school system that eventually resulted in raising literacy rates to one of the highest levels in the newly industrialized nations. Adult literacy was only 22 percent in preliberation Korea. Today it is over 93 percent.[23] Korea may have the only major army in the world composed completely of high school graduates and those with higher education. By 1969, the average years of schooling of those between 25 and 34 years of age was higher in Korea than in France or Italy.[24]

The basic American foreign assistance effort had three policy goals: the democratization of education, its decentralization, and the creation of coeducational classes to improve the status of women. Although the basic objectives of the donor were never met (Korean education remains hierarchical, "democratization" was never achieved, control of the education system is even more highly centralized than before, and coeducational classes were never accepted beyond the primary level), the educated labor force that was created prior to demand emanating from the manufacturing sector was an important element both in Korea's growth[25] and in the rapidity with which it was accomplished.

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[23]David Cole and Princeton Lyman, Korean Development: The Interplay of Politics and Economics (Cambridge, Mass.: Harvard University Press, 1971).

[24]J.L. Wade and B.S. Kim, Economic Development in Korea: The Political Economy of Success, New York, Praeger, 1977), p. 125.

[25]Noel McGinn et al., Education and Development in Korea (Cambridge, Mass.: Harvard University Press, 1980); also Mason et al., Chapter 10. In interviews with key Korean leaders, this point was a lietmotif in most discussions.

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Korean growth and development did not create the demand for education. Rather, popular demand (somewhat unrealistic in the earlier period--Korean education was not known as an ivory tower, but a "cow bone tower," a structure built on the sale of cattle by farmers to finance their childrens' education) for mobility through schooling substantially led any real growth in the economic system. As the economy expanded, however, an educated labor pool of both men and women was available to provide Korea a competitive edge over many nations with a less literate and educated populace. The Korean Government made attempts to spread the primary school system throughout the country. Indeed there were few places by the 1960s that did not have a primary school within walking distance of most villages; by 1965, 91.6 percent of primary school-age students were enrolled.[26] Although female participation in education started out quite low, it has now equalled that of males, at least at the primary and middle school levels, and has virtually done so in high schools. Female enrollment ratios in colleges, however, are relatively low (26.5 percent in 1975), probably because of the high costs and preference given to males.

Although the Government advocated the establishment of schools throughout the country, the level of Government expenditure on education was kept quite low in comparison to other countries; since 1960 it has run about 15 percent of the Government budget and under 3 percent of GNP.[27] In fact, the bulk of education in Korea was privately financed. The strong desire for education is evident from its enormous private funding; in 1961, for example, expenditures on education were estimated to equal one-fifth of the currency in circulation.[28] Throughout much of the decade beginning in 1966, the costs of middle school were about 10 percent of disposable household income, high school 15 percent, and college one-third.[29] In 1977, more than two-thirds of total in-school expenditure were borne by parents of middle, high school, and college students, and this limited educational access.[30] Thus, significant sacrifices were made by the population to educate their children.

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[26]McGinn, p. 47, and World Bank 1982.

[27]McGinn, p. 16.

[28]Gregory Henderson, Korea: Politics of the Vortex, (Cambridge, Mass.: Harvard University Press, 1968), p. 220.

[29]McGinn et al., p. 29.

[30]Korea Development Institute, Development Strategy and Policy Priorities for the Fifth Five-Year Development Plan, Working Paper No. 8003 (Seoul: Korea Development Institute, April 1980), p. 125.

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Severe equity problems did and still do exist, however, in educational access, particularly at higher levels. Poverty retarded educational advancement; through the 1960s, roads and transportation in rural areas were so limited that many potential students could not go on to middle and high schools, which were located only in the market towns (eups). There were no boarding facilities there, and it was only the exceptional farm family with means or relatives in the towns that could send a child, usually male, to middle and high school.

An important byproduct of the expansion of Government assistance in rural areas beginning in 1971 was the massive construction, improvement, paving, and expansion of the rural road network. This had important equity and economic implications, for (with buses subsidized by the Government along some more remote routes) students had better access to schools. The IBRD has provided well over $350 million and the ADB over $100 million for road and highway construction and improvement.[31] Along with the expansion of the rural road system came the increase in farm income because of the change in policy on the higher pricing of rice and barley. Thus, funds became available for education of children beyond primary school. This meant that by the 1970s farm children were attending schools on bicycles that previously had only been the major mode of transporting produce to market. Of course, the expansion of the population in middle, high schools, and colleges had important implications for restraining the growth of the labor force.

Because the educational and social system pointed consistently upward toward a bureaucratic position (today business may be even more enticing), there was a persistent demand to get into a good primary school, leading to a good middle and high school, and then to one of the better universities. This practice mirrored the Japanese experience. The system was so accurately predictable--good primary schools being the critical first factor in social and economic success--that families of civil servants or businessmen would often not join their husbands in the provinces so they might have access to the better schools of Seoul. In that sense, most of the rest of Korea was disadvantaged. In 1975, Seoul, with about 20 percent of the population, had 16.3 percent of the nation's primary school, 20 percent of the middle school, 34.2 percent of high school, and 42.5 percent of college graduates; education was an important (but not primary) motivation for migration to Seoul.[32]

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[31]Exact figures are not known because highways and roads were constructed as components of other projects as well.

[32]McGinn et al., p. 165.

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In a series of recent reforms, the Government has attempted to break up these patterns by assigning schools by lottery, eliminating a private tutorial system that favored the children of the wealthy elite by allowing them to excel more effectively on all types of competitive examinations,[33] expanding higher education (and technical schools), and generally breaking down the elite, gentry (yangban) tradition in which, parenthetically, most of the army did not participate. Education is expensive in Korea, with many of the private costs hidden, and one indicator of increasing rural incomes is that many farm families who once could send their children only through primary school can now send them through middle and high school (whereupon they usually abandon the farm for urban employment). The issue of continuation in school is more important in Korea than in some other nations because Korea uses a mix of both the Korean alphabet (hangul) and Chinese characters (hanja--the latter have been eliminated in North Korea). One may be literate in hangul after primary school, but one cannot read Korean newspapers, which are printed in the two alphabets, because Chinese characters are not introduced until late in primary education. Thus, to function effectively in Korean society requires at least a middle school education.

1.3.4 The Meritocratic State

For the generation now in power, the social contacts established through the "right" education were an integral part of success, if one could pass through the stiff entrance requirements of the meritocracy.

The Confucian state originated the concept of a bureaucratic meritocracy through instituting an examination system for government positions. It is not surprising that Korea, a state even today with strong Confucian overtones, should have adapted the concept to its own use.

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[33]For example, it was estimated that 70 million won was spent annually on private tutoring, and this gave students who could afford it an advantage. About 14 percent of students attending college had tutors, and in large cities 12.2 percent of students had tutors, compared with only 1.5 percent of those in rural areas. Per capita costs at the high school level were W15,813 per month. See Hans Singer and Nancy Baster, Young Human Resources in Korea's Social Development: Issues and Strategies (Seoul: Korea Development Institute, 1980), p. 31. The ability to tutor was an income supplement for needy college students. Some cynics note that making tutoring illegal means group tutoring is eliminated but private tutoring is not, thus in fact raising costs.

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Initial entry into the bureaucratic system through examination tends to perpetuate or ratify the existing social order. Although, theoretically, anyone can pass, in fact those who graduate from the better universities, and those who enter those universities from the better high schools, are chosen on merit. These students are a self-perpetuating intellectual elite who can be said to be "the best and the brightest," often the scions of well-known families who have maintained their social (and economic) standing by ensuring that their children remain at the apex of society.

This is not to say that Korea, as many other societies, does not also operate on the "entourage" system associated with patrimonial societies,[34] but the merit system as a means of initial entry is pronounced and respected. The depth of bureaucratic competence extending down through the Ministry of Home Affairs and the various sectoral ministries to the county (gun) is evident in the effective project implementation to which every donor attests. It has been an integral feature of both growth and equity.

These three elements of land reform, educational expansion, and a meritocracy, some of which are shared with other states, eventually more than compensated for the natural resources, the heavy industry and mineral wealth, and the hydroelectric power plants that in 1945 had been North Korea's portion on partition. They are not sufficient explanations for Korea's economic progress, but they were integral to it. They were, in part, assisted by foreign aid.

2. KOREAN GROWTH

Korean growth has been neither continuous nor sectorally balanced since the Korean War. To gain perspective on changes that occurred in different periods, it is important first to provide an overview of Korea's economic development.

2.1 Economic Accomplishments of the Republic of Korea, 1953-1983

In 1953, Korea was in ruins. The destruction caused by the Korean War devastated the society and the economy, only physically sparing a small segment of the southeast, which was swollen with refugees. No one was emotionally spared. There were over a

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[34]See Norman Jacobs, The Korean Road to Modernization and Development (Urbana: University of Illinois Press, 1985).

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million civilian casualties in South Korea alone, and an additional 420,000, mostly South Korean, dead among the UN forces.[35] The destruction caused by the war in South Korea alone was estimated at $2 billion and included two-thirds of all industrial plants and 40 percent of all buildings. The physical losses were estimated at just under the equivalent of the total 1953 GNP.[36] Agricultural production had dropped 27 percent. Twenty-five percent of the population were refugees.

The Republic of Korea could not have survived on its own at that time. It could neither feed its people nor provide them with basic necessities; it could not run the Government without outside assistance, nor could it protect the state. The standard of living had dropped below World War II levels and was not to equal them again until 1957. Urban degradation and the "spring hunger" of the countryside were the pattern, not the exception. Korea had become, both militarily and economically, a ward of its principal donor--the United States.

Per capita annual income of the population of 21 million at this time was about $67 in current dollars (see Table 1). Less than 23 percent of the population was urban. Infant mortality was 112 per thousand live births, and life expectancy was about 53 years. About 74 percent of the labor force was in agriculture, and only 7 percent in industry. Exports in 1955 were only about $18 million, mostly consisting of sales to UN forces in Korea, and only about 8.3 percent was manufactured goods. Rice production was 3.7 million metric tons.

There was, perhaps more importantly, a widespread malaise in this fractured society, reflected in an essentially defeatist attitude. Korea, it was said, could not be economically self-supporting. This pessimism was to last for another decade and was to influence both the donors and recipients for a considerable time. Even the most optimistic of reports, that done by Robert R. Nathan Associates in 1953 under UN auspices, called for concentration on agriculture and mining (not manufacturing) to achieve self-sufficiency in 5 years. The plan proved to be unworkable within the period set, and later Korea was to follow a different route to development.[37]

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[35]Paul Kuznets, Economic Growth and Structure in the Republic of Korea (New Haven: Yale University Press, 1977), p. 37.

[36]Ibid.

[37]Mason et al., p. 179.

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Table 1. Statistical Indicators for Korea 1953, 1961, 1970, and 1982

Category	1953	1961	1970	1982
Population (million)	21.016	25.710	32.241	38.876(1981)
Percent Urban	23.1	28.6	40.7	55.9(1981)
Crude Live Birth Rate	45.3(1958)	41.3	30.3	24.0(1980)
Infant Mortality (per 1000)	112.7	75.3	50.0	33.1(1981)
Life Expectancy	53.2(1958)	55.0	60.3	66.1(1981)
Agricultural Labor Force (%)	74.1	64.1	50.0	34.0(1980)
Industrial Labor Force (%)	7.0	9.6	18.0	9.0(1980)
Vocational School Enrollment (000)	N/A	119.3	272.7	805.3(1979)
Agricultural Production Index	100	70.0	99.0	159.0(1981)
Production, Wheat (M/T)	101	172	219	66
Production, Rice (M/T)	3,744	4,717	5,471	7,083
Production, Barley (M/T)	794	1,197	1,591	745
Imports ($ million)	345.4	316.1	1,984.0	24,344.6(1981)
Exports ($ million)	39.6	40.9	835.2	21,188.9(1981)
GNP per Capita ($)	67.0	82.0	248.0	1,800.0
Domestic Savings as % of GNP		8.0 (1962-1966)	15.6 (1967-1971)	29.3 (1977-1978)
Manufacturing as % of Exports	8.3	13.9	77.1 (69)	90

Source: Derived from IBRD data.

On the coup of General Park Chung Hee in 1961, Korea had not greatly changed from 1953. It was true that per capita income had increased and infant mortality had started a precipitous decline, but the nation still depended on foreign assistance for its imports and for a large, but falling, percentage of support to the Government's budget. Exports had marginally improved to $40.9 million, but manufactured products still comprised only 13.9 percent of that total.

The significance of the shift in politics was, however, soon evident as Korea came to be ruled by "military, bureaucratic-authoritarian regimes."[38] With this change came vital decisions

[38]Kuznets, "South Korean Model," p. 39.

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about the nature of the international economic relations that Korea was to pursue and the type of economy that Korea was to have. These changes were palpable, consistent, generally pragmatic, ably implemented, and came at a time when the world economy was receptive to an export drive.

The support of donors, on which Korea had been so heavily dependent, continued to be vital for a period, as will be demonstrated below, but the nature of the relationships changed. The growing economic independence of Korea, desired both by the Koreans and by the United States, but for different reasons, became readily apparent.

Today, the visitor who had been absent for two decades, traveling in almost any portion of the nation, would have difficulty recognizing Korea, either urban or rural. The towering Seoulscape, changing markedly every few years, is only the most obvious aspect of change that is also mirrored in the countryside, where forests have been replanted, houses rebuilt, roads paved; there are few areas of Korea that indeed can any longer be called isolated.

Life now is no doubt generally better. Infant mortality is less than one-third of 1953, and life expectancy is up 13 years. Korea has become a largely urban and integrated society. Exports totaled over $21 billion by 1981. From a society that relied on foreign grant assistance to provide at various periods one-third of the Government budget, almost total support for its military, and up to 85 percent of all imports, Korea has attracted both donors and commercial lenders and investors. Whereas in 1953 there was concern that the state could not support itself, and its credit was nil, today a debt burden of $40 billion is not regarded as unduly constraining to a nation with the export record and potential of Korea.

The macroeconomic performance of South Korea has been spectacular by any standard. GNP has risen an average of 8.3 percent from 1962 to 1981. The growth since 1981 has been impressive: 5.6 in 1982 and 9.3 percent in 1983. Manufacturing since 1961 has been the strongest sector, and exports have been expanding at about 30 percent per year, so that Korea today exports almost entirely manufactured products. Almost as important has been the breadth of the exports. Even by 1969, Korea had the highest export value among middle-income countries of that period, and its diversification of exports--some 101 commodities of which 71 were manufactured and valued at 77.1 percent of total exports--was greater than any other country's in this group except Mexico.[39] In the early 1960s, Korea exported to only 19

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[39]Wade and Kim, pp. 122-125.

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countries; in 1976, Korean exports reached 175 nations and areas.[40]

One of the most important changes that has occurred in Korea has been the confidence engendered by the Government in both planning and execution of development activities. This is in marked contrast to the attitude of despair prevalent in the first decade after the Korean War.

This despair was shared by most, if not all, foreign observers and technical assistance specialists and seemed justified by the generally poor performance that prompted it. If there has been a consistent pattern among foreign professional observers of the Korean economy, it has been a major underestimation since 1963 of the Korean capacity to achieve goals that seemed wildly optimistic to those not fully aware of the strength of the Korean bureaucratic culture, its capacity for responding to directives, and the resiliency and hard work of its talented people.

The simplistic notion that this remarkable performance was one that was consistently measured and balanced over the three decades since the Korean War is not only false but dangerously misleading, masking problems in growth, changes in policy, and uneven distribution of such growth by region and sector over this period. To review Korea's economic achievements is thus to review these changes, many of which were intimately linked to the political process in Korea, the personalities of the leaders, and the changing relationships with the donor community.

2.2 Import Substitution and Foreign Aid Maximization, 1953-1960

The literature on Korean economic development and foreign assistance produced during and following the first decade after the outbreak of the Korean War seems a dirge at an economic wake. It reflected extreme disillusionment by both Koreans and Americans over their own and each other's performances. Americans referred to Korea as having a "mendicant mentality,"[41] as the latter wanted aid but seemed less interested in development, and as a "bottomless pit" into which aid flowed without result.

The restrained donor skepticism may be summed up by an official U.S. report stating that "accomplishments have been less than they otherwise would have been or have cost more than was

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[40]Mason et al., pp. 138-139.

[41]See Hahm Pyong-Choon, "Korea's Mendicant Mentality," Foreign Affairs, October 1964.

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necessary in what we believe is a significant but indeterminate measure."[42] These documents stress inefficiency, improper use of assistance, political interference in economic issues, and corruption. On the other hand, later official reports from the 1960s, after exports began to rise and the economy markedly improved, put far less emphasis on inefficiency, and, when critical, dealt with a lack of reporting on assistance and manipulation (use for unintended purposes, but not waste) of funds.

Congressional findings indicated that Korea lacked technically trained manpower, deplored the extent to which the economy was dominated by inefficient Government enterprises, noted the extreme concentration of authority for economic decisions in the hands of Syngman Rhee, indicated concern that projects were chosen for prestige not economic reasons, and noted that ineffective measures were taken to discourage speculative trading, collect taxes, and promote domestic savings.[43]

During his tenure, the personality and emotional predelictions of President Syngman Rhee had a pervasive influence over the economy of South Korea. He refused to accept the division of Korea as permanent and was always determined to unify the two regimes. He thus was reluctant to establish those industries, including power generation and fertilizer plants, that would duplicate those in the North under the eventual unified government that he assumed he would control. Therefore, economic planning by Koreans (as opposed to that of foreign advisers) was not formalized until late in his administration. The first Three-Year Economic Development Plan was approved by the cabinet in January 1960,[44] just 3 months before the student revolution that forced Rhee into exile. It was only implemented in revised form as a 5-year plan after the coup of General Park Chung Hee in 1961. It may be said that the modest economic growth that took place in the Rhee era was the result of large-scale foreign assistance rather than implementation of any positive economic plan or mobilization of domestic savings--governmental, business, or personal. The propensity to save is strongly influenced by confidence in both the economy and the society. There was little of either during this period.

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[42]Comptrollor General of the United States, "Audit Report to the Congress of the United States: U.S. Assistance Program for Korea," (Washington, DC: General Accounting Office, June 14, 1957 [for fiscal years 1954-1956]).

[43]Ibid.

[44]Jae-won Lee, "Perspective for Economic Development and Planning in South Korea," in Studies in the Developmental Aspects of Korea, Andrew Mahm, ed. (Kalamazoo: Western Michigan University, 1969).

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The economic regime of the First Republic has been characterized as one of import substitution and the Park and Chun governments ones of export promotion. Import substitution and export promotion are not, however, opposed in some sort of economic Manichean dualism. Rather, they may be thought of as a spectrum along which it is possible to array countries, periods, or sectors for emphasis. Thus, although it is substantially correct to say that the Rhee period was essentially oriented toward the import substitution end of the spectrum, a variety of export incentives were promulgated, but with little effect because of unrealistic exchange rate polices.[45] During the export-oriented Park period, the stress on self-sufficiency in rice and the development of heavy and defense-related industries could be considered as import substitution within a driving export emphasis.

Although a joint economic planning commission was established during the Korean War to coordinate donor-recipient policies and to ensure effective use of the multiple resources pouring into Korea from various types of American assistance (which also generated local currency that was to be programmed jointly), the donor-recipient relationship in this period was tense and hostile.[46] There were policy discussions, even confrontations, but these could hardly be considered "dialogue." There developed a complex series of multiple exchange rates that were largely overvalued and retarded export development but also allowed vast profits to be amassed through their manipulation. It was, thus, quicker and easier to profit from speculation and influence than through increased production. Rhee's policy seems to have been one of maximizing the flows of foreign assistance rather than the development of an autonomous economic system.

During this period, aside from some modest assistance that was brought in through the UN and a large number of private assistance organizations, the donor flows were over 90 percent from the United States and were in the form of grants. In various years during this period, the United States provided a third of the total budget for the Government (58.4 percent in 1956) and up to 85 percent of all imports and 75 percent of total fixed capital formation. During 1952-1958, foreign aid and relief assistance provided 75 percent of Korea's imports and 8 percent of GNP. This latter figure could have been twice as large, however, according to one source, had the exchange rate

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[45] Mason et al.

[46] Ibid.

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used in the calculations been realistic.[47] Yet policy reforms were instituted slowly, rarely, and with great recrimination.

Despite the massive U.S. assistance, there was little agreement between the governments on anything beyond the survival of the Korean state. Thus, arguments about the level and role of foreign assistance were endemic, with the Koreans attempting to expand Government activity without indigenous resource mobilization, while the United States was trying to limit both their and the Korean Governments' expenditures.[48]

Syngman Rhee maintained personal control over the economy. He demanded that any issues involving changes in the exchange rate, relations with Japan, or foreign assistance require his personal approval. The dichotomy over the objectives of foreign aid is apparent. Rhee wanted to restore destroyed industry, but the United States was afraid that the funds might be used for political purposes; in addition, such support would take a long gestation period to have any effect and would require additional local currency, thus implying more aid-funded commodity imports, the sale of which generated such funds. On the other hand, Rhee did not want foreign aid concentrated in agriculture because such funds could be controlled by local politicians. The foreign donor, the United States, had one prime objective: the maintenance of an effective military command at the lowest cost.[49] Thus, there was a difference in goals that led to conflict over economic policies and performance.

For the first 3 years (until 1956), the Koreans dominated, but after that the Americans had a stronger influence on the stabilization program through the threat of substantial drops in aid. Yet, "To take the period as a whole, however, it was Rhee who called the tune in economic policy. As so often happens, a weak regime confronting a strong power was able to use the very

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[47]Gilbert Brown, Korean Pricing Policies and Economic Development in the 1960s (Baltimore: The Johns Hopkins University Press, 1974).

[48]Mason et al., p. 305.

[49]Personal interview with a senior official of the Rhee period. Rhee wanted to distance himself from the United States and proposed that Korea join the IBRD and IMF in 1953. An American representative to the IBRD recommended that Korea first get its inflation under control. IBRD lending at that time was on hard terms and Korea could not even prepare a loan application. In fact, Korea later used the U.S. Development Loan Fund as a practicing forum for IBRD loan applications. The first IBRD loan was for the railroad in 1962.

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weakness to attain most of its ends. Rhee successfully pursued what might be called a policy of 'coercive deficiency.'"[50]

The major lesson from this period about what is now called "policy dialogue" is that there was relatively little successful policy intervention by the donor, despite the magnitude of the support. In similar situations, when a major bilateral donor is providing funds sufficient in theory to influence the policy decisions being made in a host government, the diverse reasons for such massive support (e.g., political, security, military, and so forth) are likely to be highly complex from the donor's policy perspective. Thus economic policy issues are caught in a complex web of sometimes contradictory policy and bureaucratic interests that prevent focused pressures for individual economic reforms,[51] because it is likely that military, security, diplomatic, and indeed internal donor political imperatives will take precedence.

The tensions between Korea and the United States were summarized as follows:

> The Korean government of Syngman Rhee wanted to build a modern economy similar to, but independent of, the Japanese economy. Their desire was for new factories and heavy industry financed through foreign aid having little regard for the inflationary impact of the heavy investment programs or the longer-run issues of comparative advantage. The United States, on the other hand, was concerned about moving the South Korean economy towards self-sufficiency as rapidly as possible while holding down the aid requirements and minimizing instability and inflation in the process. Thus, there was clear disagreement over the issue of resource mobilization, with the Korean government wishing to rely mainly on external resources, or if necessary on inflation as a means of mobilizing domestic resources, and the American government urging greater Korean efforts

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[50] Mason, et al., p. 458.

[51] This situation was endemic. The General Accounting Office noted that a major purpose of program loans to Korea was to encourage the Government to meet economic performance targets. Failure to meet the stabilization goals, however, did not result in deobligation of funds and thus was not effective in the policy sense, and release of funds was not always tied to achievement of economic goals. (Comptroller General of the United States, "U.S. Assistance for the Economic Development of the Republic of Korea," Undated draft submitted to AID, [General Accounting Office, July 26, 1972], p. 31.)

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at domestic resource mobilization through increased taxes and private savings.[52]

Severe criticism of the early American aid effort was warranted and began to surface in print in Korea after the overthrow of the Rhee Government. American aid, it was charged, imported consumption-type goods and not the basic capital materials needed to build a self-sufficient economy. Investment goods were less than 14 percent of all imports from 1953 to 1960 and less than 10 percent in 1953, 1957, and 1958. There was concern that the PL 480 program was counter-productive in that it allowed the Government to suppress the producer prices for rice. This criticism was later widely echoed. It was also said later that "This use of program loans (in the 1960s) for rice purchases with AID funds in conjunction with increased PL 480 imports appears to serve as a disincentive for the Korean government to seek an early solution to problems in its agriculture sector."[53]

Despite the fact that the rural areas were disadvantaged and that both the public sector, which the Americans criticized as too large (partially because the state took over many of the Japanese assets), and the private sector were considered inefficient, the economy was by no means stagnant. The agricultural sector grew by 4.1 percent during this period, even though rice production, the mainstay of the agricultural sector, remained relatively constant.[54] Even in industry, some observers noted that the charge that foreign assistance was not productive in the 1950s is inaccurate, because many of the earlier projects permitted the high growth rates of the 1960s, even though the assistance perpetuated poor policies for longer than was necessary.[55] Yet the aid programs were "maintenance-type" activities, largely conservative rather than more risky programs "aimed at remodeling and rebuilding the society."[56]

During the post-Korean War period of the Rhee Government, the magnitude of assistance was so great and pervasive, and Korea

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[52]Mason et al., pp. 192-193.

[53]Comptrollor General of the United States, U.S. Assistance, p. 2.

[54]U.S. Department of Agriculture.

[55]Anne O. Krueger and Vernon W. Ruttan, The Development Impact of Economic Assistance to LDCs (University of Minnesota, March 1983).

[56]Suk Tai Suh, Foreign Aid Foreign Capital Inflows and Industrialization in Korea: 1945-75, (Seoul: Korea Development Institute, October 1977), p. III-37.

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was exporting so little, that almost all of the savings generated from foreign sources may be attributed to foreign aid. From 1953 to 1961, this ranged from a low of 5.2 percent to a high of 10.8 percent of GNP (average, 8 percent of GNP). During the same period, Government savings were negative, ranging from a low of -1.7 percent to a high of -3.0 percent of GNP.[57] Foreign assistance amounted to "more than half the total resources available for capital accumulation in every year from 1955 to 1962." The critical role of foreign assistance at that time is thus apparent.

One may sum up the pre-Park era on overall aid effectiveness as one in which foreign assistance was essential to the survival of the state but poorly used and unimaginatively planned and administered. Some preconditions for growth were created: excess industrial capacity, an educated population, and foreign, modern specialized training in skills needed for development. The results, however, did not seem to equal the effort.

It is now somewhat disingenuous to claim that because a later regime, under substantially different economic motivation and incentives, effectively used and built upon some of the assistance of the earlier period, this previous assistance was therefore "successful." In fact, the assistance might have been better supplied to other sectors (or countries) in greater or lesser amounts, and it should be remembered that it was the Koreans who made the later effective use of the capacity and (some) institutions created, not foreign technicians or policy specialists. "A [productive] base had been laid but the effective exploitation of this base depended on a different political regime, a different set of economic policies, and a different relationship between government and business."[58]

The charge that Korea began to grow essentially after foreign concessional assistance stopped is inaccurate and misleading. Concessional aid, provided by the Japanese (about 90 percent of such assistance is from this source) continues, and the level of aid is, in the Korean case, less relevant than the changing economic policies and political will demonstrated by the Government. Such aid, however, was a necessary precondition for

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[57]Cole and Lyman. Chung (op. cit.) noted: "The economic aid certainly appears to have provided the basis for much economic growth...economic aid supplied the amount of resources equal to the level of net investment. This meant capital accumulation in South Korea during this period [1953-1965] was possible mainly because of the economic aid." The following quotation is from Krueger, p. 215.

[58]Mason et al., p. 250.

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later growth, and there is no question that Korean economic success in some measure was dependent on earlier assistance.

2.3 Export Promotion and Rapid Growth, 1961-1983

The period of rapid growth of the Korean economy began during the regime of Park Chung Hee, apparently motivated by political factors as much as by economic considerations. The success of the program was, however, contrary to the expectations of most Koreans and foreigners at that time.

2.3.1 Export Promotion and Political Will

General Park Chung Hee and a group of officers from the Eighth Class of the Korean Military Academy seized power on May 16, 1961 in a successful coup, the first such event since 1392, the founding of the Yi Dynasty. The coup leaders, despite their success, were at a distinct disadvantage. They had overthrown the popularly elected administration of Chang Myon (Syngman Rhee had been deposed a year earlier), one that came to power in one of the few fair elections Korea had seen, but during its brief tenure seemed disorganized and ineffective, perhaps a natural consequence following the years of political repression under Rhee. Park himself was suspect.

Rhee, for all his failings, had a degree of political legitimacy, at least at the beginning of his administration, for he had inviolable nationalist credentials as a result of his anti-Japanese struggle in exile. He also had the backing of the United States, at that time considered a political asset. Park, on the other hand, had no such legitimacy. He had been an officer in the Japanese army and had no nationalistic history. Coming from the army and from a poor rural (Kyungsang) lower class background, he had credibility neither with the intellectuals and gentry nor with the students or labor unions, whose activities the coup suppressed. Park was also at first suspected of being a leftist, as he had been arrested in connection with the communist-inspired Yosu-Sunch'on insurrection of 1948.

The United States had been against the coup, both because it was committed to the democratically elected government of Chang Myon and because the leaders had moved troops without authorization from the UN command, controlled by the United States. Relations with the coup leaders remained very cool after the coup. The United States virtually forced Korea into holding the 1963 elections, over Park's opposition, and used economic aid as one element in its pressure.

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The economic consequence of these political and social forces was that Park needed to acquire domestic legitimacy, which he could only obtain through the economic development of the country. Bitterly disappointed in relations with the United States for the first 2 years after the coup, he resolved to increase Korean economic independence through a major policy shift that was a product of his political and economic needs; thus the export drive was launched. If it succeeded, it would give him respectability at home and greater autonomy from the United States, on which, however, he had to continue to rely for military security. Park was also independent of the economic, industrial, and bureaucratic elements that had fostered the import substitution policy and may have intentionally attempted to reduce or eliminate their influence. The tension between security needs and economic forces dictated by Korean reliance on the United States has been a continuing theme from the Rhee period to the present, although contemporary disputes are about trade, not aid.

There is considerable evidence for this conclusion, drawn both from Park's own statements on the need for greater autonomy and from economic actions taken without the close economic consultations that had previously been a pattern (even if with acrimonious overtones) of the Rhee period and were later important. Closely following the coup, a currency reform was initiated without U.S. consultation. The First Five-Year Plan (excavated from the Rhee period and revised) was promulgated without foreign advisory assistance, in marked contrast with the Second Five-Year Plan (1967-1971), for which foreign advice was actively sought. Because the plan had its genesis in the Rhee period, it is not surprising that it was not oriented toward manufacturing exports. "The plan envisaged mainly import substitution and export of primary products (not labor-intensive manufactures) to replace foreign aid."[59] The joint U.S.-Korean Economic Coordination Commission did not meet from 1961 to 1963.

The first efforts by the Park Government following the coup were to consolidate power and authority throughout the state. Local government became appointive, not elective. The Economic Planning Board was formed to control and centralize both planning and budgeting. The commercial banks were all nationalized. The Ministry of Finance gained legal and de facto control over the central bank, monetary policy, and access to credit (an especially potent source of power because debt as a percentage of Korean business liabilities was 82.5 percent, compared with 35 percent in the United States).[60] The Office of Rural Develop-

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[59]Youngil Lim, Government Policy and Private Enterprise: Korean Experience in Industrialization (Berkeley: University of California, 1981) p. 16.

[60]Mason et al., p. 19.

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ment was created, wedding agricultural research and extension, and the National Agricultural Cooperative Federation was formed, combining an earlier cooperative movement with the Agricultural Bank.[61] The Government also consolidated labor unions, teacher associations, and cultural groups into umbrella confederations, allowing the state to control all potential sources of power and authority. Significantly, the state prohibited the formation of a national student federation, which the army considered would be a threat to the regime. Thus, while the state sought external autonomy from the United States, it took extensive steps to prevent any internal sources of autonomy or dissent.

It was already apparent that Korea needed to mobilize internal and external capital to accomplish its objectives. The knowledge that U.S. aid would diminish over time, as well as the experience with the United States after the coup and the political need to expand the economy rapidly and reduce the overwhelming dependence on the United States, prompted a change in the donor reliance pattern,[62] and indeed in the type of assistance from the major donor, the United States. Korea moved from grant supporting assistance to development loans, perhaps in part because loans, even on the most concessional terms, seemed a sign of greater independence and self-reliance.[63] Although relations with the United States improved markedly after Park's to the United States in 1965, the Korean drive for economic autonomy and greater international political credibility led it to diversify its foreign donors and funding sources.

2.3.2 Diversification of Donor Support

In retrospect, the pattern of Korean movement from virtual exclusive reliance on the United States to a highly diversified and sophisticated array of mechanisms--including trade, aid, investment, and overseas industrial expansion--is obvious. It was not, however, a single event, but a process that still continues.

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[61] See Steinberg et al., Korean Agricultural Services, on the cooperatives, and Steinberg et al., Korean Agricultural Research: The Integration of Research and Extension, AID Project Impact Evaluation No. 17 (Washington, D.C.: AID, January 1982), on the Office of Rural Development.

[62] David Cole, "Statement Before the House Subcommittee on International Organizations," typescript, 1978.

[63] [illegible]on et al., pp. 197-198.

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The first IBRD loan to Korea dates from 1962, as does the real start of Korea's efforts to encourage foreign investment by promulgation of a revised investment act. Korea encouraged the IBRD to form a consultative group to coordinate donor support; it first met in 1966. After the first oil crisis, Korea expanded its activities to the Middle East, with continuing and pronounced success. Korea has been sensitive to the need for persistent review of its trade and aid program. By far the most important new relationship that was established, with implications for aid, trade, investment, and technology, was the reestablishment of relations with Japan.

Despite the obvious economic sense of such a move, Rhee's adamant stand against reestablishing relations with the Japanese had considerable popular support. The United States strongly backed the move for normalization, as it was called. Park's high-handed method for normalization (involving highly questionable parliamentary tactics for its ratification in 1965) resulted in a series of student demonstrations. Park, however, persisted and imposed martial law. Normalization brought in some $800 million (over a 10-year period), of which $300 million was to be in grants, $200 million in concessional loans, and an additional $300 million in commercial credits. In fact, from 1965 through 1982, Japan had grown to become the third largest donor as well as the largest investor and trading partner of Korea. Japan has provided $4.417 billion in overall assistance, including $1.898 billion in grants, loans, and technical assistance. After a Korean request for an additional $10 billion in support from Japan, agreement was reached in 1983 for $4.0 billion, of which $1.85 billion will come from the Overseas Economic Cooperation Fund (concessional assistance), and $2.15 billion from the Japanese Export-Import Bank together with other Japanese commercial banks, at interest rates to be determined. Interest rates will, however, be more than 4 percent.[64]

It has been estimated that Japanese capital inflows contributed 10 percent of gross domestic capital formation in the first few years after normalization.[65] Equally important, however, have been the technological innovations introduced into Korea from Japan. Through 1973, half of the technical assistance and

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[64]Japanese Ministry of Foreign Affairs interview. The Korean Press (Korean Times, May 8, 1984) indicated that some of the funds will be used for the construction of five multipurpose dams.

[65]Hak Chung Choo, Effects of the Vietnam War and the Normalization of the Korean-Japanese Relations in the Korean Economic Development in the 1960s (Seoul: Korea Development Institute, 1972). Krueger (p. 114) argues that the success of the export drive was evident before normalization of relations with Japan.

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royalty payments paid by Korean firms were to Japan, but by 1982 this figure had dropped to about one-third (total $668 million), with payments to the United States slightly surpassing those to Japan.[66] The network of foreign trade contacts provided by the large Japanese trading companies has handled a considerable percentage of Korean trade, especially in Eastern Europe. The Japanese traders have even captured 82 percent of the sales of American grain to Korea.[67]

The sensitivity of the Japanese role in Korea to Koreans, many of whom still view Japan's interests on the peninsula with considerable concern, is quite understandable. It is nevertheless evident that it is a Japanese model that was followed in industrial and agricultural pricing policy. Many of the administrative forms and statutes in Korea derive from the Japanese, whom the Koreans often regard with both admiration and disdain.

The Japanese have been the major investors in Korea. Through 1979, Japanese firms had invested some $587 million, or 56 percent of all foreign investment in Korea since 1962,[68] when such investments began to be encouraged. Through 1983, approvals of Japanese investment totaled $843.4 in 663 projects, or 49.5 percent of all investment.[69] In contrast, the United States (excluding foreign subsidiaries of U.S. multinational firms), the second largest investor, had $409.7 million invested in Korea, or 29.1 percent of the total. There is no distinction in the statistics between Japanese investment and the investment of Koreans resident in Japan. For example, the single largest commercial investment has been by the Lotte company, which is owned by a Korean resident in Japan.

If Japanese aid and investment have been pervasive, the lending of the World Bank has been of even greater magnitude. Since 1962, the Bank has provided $5.259 billion in assistance to Korea through April 6, 1984. The Asian Development Bank (ADB) has provided $1.377 billion since 1968, when its program began. Korea is the second largest borrower from the ADB. Both banks have made major investments in infrastructure, especially transportation, and both have provided substantial funds to Korean banks and institutions for relending to industry.

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[66] Business Asia, Seoul, October 25, 1984, and Ministry of Science and Technology, 1983.

[67] Business Korea, Seoul, May 1984.

[68] Asian Development Bank, 1982.

[69] U.S. Department of State, Airgram A-8, March 2, 1984 (unclassified), "Foreign Equity Investment in Korea, 1983."

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In Korea, many believed that just as the Japanese had expanded their economy as a result of the Korean War, so the Koreans could progress during the Vietnam War. In fact, this was the case. In addition to the combat training for about half of the standing Korean army (in rotation), Korea was able to reap considerable economic rewards from that involvement. Through a series of construction and other service contracts, remittances, commercial exports to Vietnam, and military goods sales (as well as access to the American PX and commissary facilities, which were well used), earnings to the Korean economy from Vietnam were large.

Although there are some discrepancies in the published figures, earnings from Vietnam were 10.6 percent of foreign exchange earnings in 1966, 19.4 percent in 1967, and 17.3 percent in 1968.[70] They have also been calculated at 1.5 percent of GNP in 1965, 2.2 percent in 1966, 3.7 percent from 1967 to 1969, and 4.4 percent in 1970.[71] Overall, its Vietnam involvement may have contributed $660 million to the Korean economy between 1968 and 1971. Other figures place the total between 1965 and 1973 at $926.3 million.[72] Korea's share of exports to Vietnam as a percentage of Korea's total exports was considerably lower than that of Japan's to Korea during the Korean War. Korea also reaped psychic rewards from Vietnam; for the first time Korea was a provider of assistance, not just a recipient.

The overall effect of both the Japanese normalization and the involvement in Vietnam, which occurred at about the same time, is estimated to have contributed one-third to one-half of Korea's GNP growth, adjusted for inflation.[73] At the time, with a significant drop in U.S. economic assistance during this period, these events were especially important to the growth of the Korean economy.

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[70]Cole and Lyman.

[71]Choo, Effects of the Vietnam War.

[72]"Seoul's Second Bonanza," Far Eastern Economic Review, July 30, 1973. Counting foreign exchange earned from U.S. forces in Korea, both sources amounted to almost one-third of all Korean foreign exchange earnings between 1966 and 1969.

[73]Choo, Effects of the Vietnam War.

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2.4 From Aid to Trade and Investment

The ramifications of Korea's change from a major foreign aid recipient to an important trading and industrializing nation, with considerable attractions for foreign investors and, even more important, for foreign lenders, extend beyond the foreign exchange earned. A variety of other purposes were and continue to be served. These give added impetus to the continuing need for trade expansion. They include the diplomatic (more than economic) competition with North Korea in the Third World, the economic reinforcement of the mutual security treaty with the United States, the ties with Japan, access to Middle Eastern oil, and the acquisition of technology necessary to remain competitive in a world economy. How has foreign assistance affected this process, if at all?

Export expansion also has important internal implications affecting employment, wages, imports, the nature of the concentration of private economic power in Korea, and the role of the Government in managing an increasingly complex economy. It has thus both growth and equity consequences.

The Korean economy in 1983 was generally healthy. GNP in real terms grew at 9.3 percent, reaching $75 billion. Per capita GNP rose to $1,880, and is predicted to be $1,974 in 1984. Foreign debt reached $40.1 billion in 1983 (the fourth highest debt in the developing world after Argentina, Brazil and Mexico), but the debt service ratio remained manageable at 15.4 percent, or at 20 percent including short-term debt. Exports reached $24.4 billion, while imports were $26.2 billion. At the close of the present fifth Five-Year Plan in 1986, the Korean economy is expected to grow to $97 billion, and per capita income to attain $2,325.[74] The prospects in general for Korea are positive, although there are indications of stress in some sectors of the economy.

The competitiveness of Korea's export trade is a product of a continuing realistic exchange rate, competitive prices, educated domestic labor and its increased productivity with relatively low, controlled (but rising) wages, more sophisticated technology, export incentives, and political determination to succeed.

Although it may be argued that the remarkable rural progress that has transpired throughout Korea was in some major measure attributable to a network of subsidies that are now beginning to

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74"Economic Trends Report," U.S. Embassy, Seoul, April 1984.

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unwind,[75] this cannot be said of export growth, at least to the same degree. Although there was in 1968 an 8-cent subsidy on every dollar exported, covering an average loss of 16 percent of the export price,[76] a later more detailed study stated:

> Other empirical analysis indicated that the remarkable export growth, 33 percent in real terms per annum for 1965-79, was achieved not by overgenerous export subsidies but by an incentive system which approaches on average the effective protection and effective subsidy rate that can be expected from a free trade regime. Also, the long-run trend of real effective exchange rate which more or less remained roughly constant despite short-term fluctuations indicates that the export incentives in terms of the effective exchange rate remained constant.[77]

Continued export expansion has been dependent on, and is likely to remain tied to, both the concentration of economic power in Korea (and thus the issue of equity in access to the market place) and higher technology.

The Korean economic scene is dominated by the emergence of the chaebol (Jea-Bul--or zaibatsu in Japanese, conglomerates in English), multipurpose and multiproduct firms that largely control the Korean economy.[78] These conglomerates are both

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[75]See Steinberg et al., Korean Agricultural Services, for a discussion of the implications of this.

[76]Frank Baldwin, ed., Without Parallel: The American-Korean Relationship Since 1945 (New York: Pantheon Books, 1973), p. 242.

[77]Suh, Suk Tai, The Effects of Export Incentives on Korea Export Growth: 1953-79, Working Paper No. 8107 (Seoul: Korea Development Institute), p. IV-3.

[78]This and the following is drawn from Leroy Jones, and Jae-Bul, Leroy Jones and Il Sakong, Government, Business and Entrepreneurship in Economic Development: The Korean Case (Cambridge, Mass.: Harvard University Press, 1980). The Far Eastern Economic Review (July 19,1984) has characterized the chaebol as follows: "Although the story of their growth is part and parcel of South Korea's economic miracle, the way they have concentrated so much---largely through cheap preferential loans, government protection and low wages--has generated tremendous resentment." The publication, in separate articles, describes the Government's efforts to concentrate emphasis on relatively few firms in such fields as pharmaceuticals and advertising.

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similar to and different from similar organizations in other nations. They are uniquely Korean in that they are generally characterized by single-family ownership, usually led by one individual, which is quite different from those in other countries. They are similar, however, in that they are diversified in products, but different in that they have not controlled financial institutions, which are either directly operated or regulated by government. (They have recently, however, bought into five commercial banks that have been denationalized--Samsung, for example, has 14 percent of Commercial Bank and 26 percent of First City Bank shares.) Thus, the Government has a much greater degree of control than in other nations and has used the conglomerates to pursue new economic directions, such as the development of the defense industry, often at considerable economic risk.

The conglomerates have been growing even more rapidly than the economy as a whole. The largest 46 firms in 1973 produced 9.8 percent of the gross domestic product, but 17.1 percent by 1978, or 23 percent of nonagricultural GDP (in fact, the top 5 firms produced about half of that amount). Of the Fortune 500 firms, 10 are Korean, and Korea has four out of the top five of private, developing country entities.

Because the individual subsidiaries of the conglomerates can qualify for loans from the Small and Medium Industry Bank, this increasing concentration of economic power, under stringent government control of credit, has meant less access to the formal credit market for smaller firms, indeed an emphasis on larger firms in many fields. The IBRD and the Asian Development Bank projects have thus expanded this economic concentration and may further exacerbate inequitable access to credit. This concentration is effective, however, in stimulating the economies of scale. If there are problems with credit equity (for there is no "neutral" institutional source of credit in Korea, although there is planned liberalization), it is also evident that the larger firms' salaries are considerably better than those of the smaller firms, probably providing increased equity in that regard. Because employment in small industrial firms dropped from 64.7 percent in 1960 to 24.7 percent in 1976, the growth of the conglomerates has generally and substantially contributed to higher wages. With emphasis on higher technology, however, the gap between large firms (which can use such technology more easily) and smaller firms may increase. In addition, there may be growing disparities among incomes within the larger firms.

The technology issue is intimately associated with trade expansion, because Korean labor is already working long hours (about 55 per week, up from 45 hours a decade earlier), and improved productivity (thus international competitiveness and high wages) is integrally associated with technology. The growth of technological competence has been of concern to each of the

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donors, including the training of key staff and the strengthening and creation of such institutions as the Korea Institute of Science and Technology. This donor concern with training and with scientific institutions no doubt contributed to Korea's technological capacity at all levels, and as far as can be ascertained, the funds generally were and are still being well used.

Although Korea by 1978 invested 0.7 percent of GNP in research and development (more than Argentina, Brazil, and India, for example) and had comparatively more scientists and engineers than those other countries (22,000 per million of population),[79] Korea has used trade to develop its technology more than any other means. Three-quarters of foreign buyers designate specifications for goods, for the general experience is that Korea has had a strong record in the development of process technology but is weak on product design. Technology has been formally acquired (i.e., purchased or transferred) about one-third of the time, but informal means, such as employees' previous experience and buyers' information, have proven more valuable.

To continue growth and further raise living standards will require increasing levels of technology and its wide dispersion. Donors have recognized this need and have provided various levels of training to facilitate economic mobility and to ensure that there are institutional and financial means by which technology can be introduced into Korea. The response of donors to this need has been appropriate, but given the magnitude, and the human infrastructure already developed, it must be admitted that the donor contribution has been useful but marginal in the aggregate.

Foreign investment in Korea is still less important than the size of the Korean economy might indicate. Through the end of 1983, there have been cumulative investments of $1.4 billion since 1962. Of this amount, the largest shares are in chemicals (19.3 percent), electric and electronic products (14.7 percent), hotels and tourism (11.5 percent), and textiles (9.7 percent).[80] Japan is the leading investor, with over half of the value (50.5 percent), followed by the United States (29.1 percent, excluding foreign subsidiaries of U.S. multinational firms). Investment has been small relative to the size and potential of the economy because of the fear of conflict on the peninsula, the uncertainty about the future political leadership and the political process, and past tight Government controls on investment that, however, have recently been relaxed.

The expansion of trade, exports, and investment has meant an increase in employment, important drops in unemployment and

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[79]Larry Westphal, Work Bank study (unpublished).

[80]U.S. Embassy, Seoul, "Foreign Equity Investment in Korea, 1983."

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under-employment, and large-scale rural-to-urban migration for the jobs created. This has greatly increased per capita income and, to the extent that donors have facilitated the process, it has been an important contribution, even though the magnitude of commercial flows has dwarfed concessional assistance.

Is there, then, a conflict between trade and aid, or can trade substitute for aid, as some suggest? The Korean evidence is not conclusive, but it suggests that (1) aid was an important precondition to developing strong trading capacity and links and (2) training and exposure to external economic conditions, together with the enhancing of broad skills (not necessarily only those that are technological, although they are critical), are important elements of foreign assistance.

Even in broadly successful trade regimes such as Korea, it may be useful to continue a variety of innovative and longer term investments in fields with concessional assistance, such as research. It is also clear that donor confidence in Korea, as evidenced by concessional lending, has been an important factor in Korea's securing commercial credits. The supposed dichotomy between trade and aid is not an accurate portrayal of the Korean scene, and on the basis of the Korean experience should be carefully scrutinized in other countries.

2.5 The Contribution of Donors to Korean Growth

It is apparent that some potential for growth was created during the pre-Park period, especially in excess industrial capacity and the training of individuals in technical fields. Thus the support of the United States, as the critical donor, was important. The basic donor contribution, however, was in the maintenance of some semblance of a government in South Korea and the relief and rehabilitation operation that led to raising the standard of living to prewar levels. One study concluded:

> The massive inflow of foreign assistance before and during the Korean War was essential to the survival of South Korea as an independent country. Continuation of a high level of economic assistance for the decade after the war probably made the difference between the small 1.5 percent per annum growth rate and no growth at all in per capita income. Without this growth, the living standard of the population would have remained desperate, political cohesion would have deteriorated, and the foundations for subsequent high growth would not have been forged. Thus, aid played a critical role for the two decades from the mid-1940s to the mid-1960s. Since then it has added perhaps one percent to

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the already high growth rate and therefore can be characterized as relatively inconsequential.[81]

Growth did occur after 1953, and at levels that would please many developing societies today, but the rate of growth was not commensurate with the resources provided from outside, nor the relatively advanced institutional base on which Korea began its growth, even allowing for the massive destruction of the Korean War.

In the 1960s, under Park, foreign assistance was also essential, not for maintenance of the regime but for the expansion of the economy. The use of funds was generally prudent and the diversification of donor support was wise, as reliance by any nation on any single democratic donor puts the recipient at the mercy of the whims of the donor's electorate. Equally important was the effort by the Korean Government to generate internal investment and revenues. These were accomplished by the upward adjustments made in interest rates on longer term savings, the advice of foreign technical assistants in 1965, and the rigorous enforcement of tax and other regulations on both industry and individual incomes.

In the 1970s, foreign assistance probably was not absolutely necessary, as foreign exchange earnings were beginning to be impressive in aggregate terms, and Korea was able to attract commercial capital and credit outside of foreign assistance. Koreans had already been trained, highly qualified Korean scholars and technicians had been attracted to return to Korea from their residences abroad, and the bureaucratic mechanisms were in place, together with the political will to use them for the economic and other purposes of the state.

Foreign assistance during this period was effectively and efficiently used, but its contribution was of a different order of magnitude from that in the previous periods. Foreign aid probably speeded the adoption of various reforms and the development of certain industries and institutions. More important, it probably also encouraged the Korean Government to make certain investments (such as in various types of technical education) more comprehensively and quickly than they otherwise might have done, and it further strengthened the role of those in the Korean Government anxious to liberalize the economy.

The external and internal encouragement of Korea to continue to borrow has created a "massive" debt burden for the nation.

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[81]David C. Cole, "Foreign Assistance and Development," p. 26; see also David Cole, Youngil Lim, and Paul Kuznets, The Korean Economy--Issues of Development (Berkeley: University of California, 1980).

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Korea in 1983 had a debt of some $40.1 billion, and a debt service ratio over 20 percent, including short-term debt. Korea has the largest debt of any nation in Asia, and although the magnitude of Korea's obligations are dwarfed by a number of Latin American nations, there are many in Korea who are concerned. This concern is not shared by many professional observers outside of Korea, because interest on the debt is less than the value of 3 months of exports.

Korea has shown remarkable resiliency in meeting the recent global economic shocks. In some sense, however, Korea's ability to meet its international economic obligations will depend not only on the state of the world economy but on the internal political scene and the capacity of the state to adapt to an orderly transfer of power.

3. GROWTH WITH EQUITY? THE KOREAN EXPERIENCE

That Korea has become one of the fastest growing nations in the world is beyond question. Whether that growth has been accompanied by improved or worsened income distribution, how income distribution has shifted over time, and the likely future direction of such changes are more complex issues. They are also ones on which data are more limited and often in dispute. The fragility of that evidence is readily apparent and has been noted in the literature, some of which will be cited below.

The issue of equity, beginning with its definition, excites considerable interest and often controversy. Obliquely incorporated into the U.S. Foreign Assistance Act of 1973, equity has relevance for the United States and for other countries.

The equity question in developing societies is more stark than in the West, as resources there are more limited. When growth occurs, a relatively small, concentrated group normally prospers; and this prosperity may seem more grating as income disparities are very pronounced because the deprived start from a lower base. Although such problems were often politically tolerated in the West for long periods, a more concentrated population and mass communications, sometimes even in largely illiterate societies, have resulted in a lowered political boiling point.

This problem, with its political ramifications, inevitably raises the issue of the strength of various types of governments in producing a growth environment. Especially salient is the issue of authoritarian regimes. Can such governments deal with growth more effectively, and is a denial of equity essential for

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growth? Some studies have evaded the question.[82] The issue could be the subject of a separate essay.

The Korea case is, however, particularly difficult and the issue cannot be avoided, even if it cannot be resolved. Economic growth has clearly outpaced political development, and participation has languished even as exports have increased. Having fought a war to preserve the independence of Korea, and having done so in the name of fostering democratic government, the United Nations, and especially the United States, has a continuing commitment to the Republic of Korea. Faced with the perceived continuing threat from North Korea, the South Korean Government has called upon its citizenry for political and economic sacrifices.

No resolution is likely of the issue of how much equity is required or desirable with economic growth, as the problem is one of degree, as are the issues of what groups should sacrifice to what extent for the common good, and the nature of such sacrifices in the face of a perceived North Korean threat. No group will be satisfied by any arbitrary formula, which would likely be an unrealistic possibility in any given society, and although this author desires the greatest possible degree of equity, he recognizes this difficulty. The normative issue cannot be resolved, even in the case of Korea, in this essay.

Equity in income is difficult to achieve in a period of rapid growth. As one author concluded, "our experience with a range of policies indicates that it is much easier to make the income distribution worse than to improve it."[83] Yet Korea has a generally good overall reputation in equity terms, at least as compared with most economies in Asia. As the Harvard-Korean Development Institute studies indicated:

> One of the most striking features of Korean economic development since 1945 is that development has been achieved without requiring or causing a highly unequal distribution of income. In World Bank publications and other international forums, Korea has been hailed as a prime example of how growth can be achieved with equity. According to the data presented in these forums, Korea is among only a handful of less-developed

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[82]The Harvard-Korea Development Institute studies do not answer this question. See Mason et al.

[83]Irma Adelman and Sherman Robinson, Income Distribution Policy in Developing Countries: A Case Study of Korea (Stanford: Stanford University Press, 1978), p. 191.

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nations that have achieved a level of equality comparable to that of the advanced world economies.[84]

Korea "is generally regarded as being exceptionally successful in combining rapid growth with advance in equity.... First, the distribution of income in Korea is among the best in the developing world."[85] Four issues that flow from that statement and that must be addressed are (1) is this in fact true; (2) if so, why; (3) what lessons can be drawn from Korea that might be applicable to other countries; and (4) can donors apply these lessons elsewhere?

3.1 Economic Issues in Equity: Overall Considerations

Two factors have been critical in determining the positive degree of economic equity in Korea in addition to those attributes discussed at the beginning of this essay. These are the destruction of assets during the Korean War and the role of the military in creating social and economic mobility.

There have been, of course, factors that have restricted equity in Korea. Predominant among them is the class structure of Korean society, which has been more highly stratified and hierarchical than that of its neighbor, China. Although the Japanese removed the Korean monarch and the royal family, the yangban (gentry) retained their social standing (subordinate, of course, to the Japanese), if not much of their income, at least if it was rurally based. Rapid economic growth is breaking down some of these old distinctions. The actions of the military to democratize and expand higher education could be interpreted as much as an attempt to wipe out the remnants of a class structure that was already being threatened by the growth of the economy as it is a desire to provide more and better trained individuals for an industrial base in which higher technology is increasingly important. Residual class structure is reflected in the prestige of government positions (formally the abode of the literati) and the hierarchy of the bureaucratic culture that continues to be a critical factor in the excellent implementation record of development projects by Korean institutions.

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[84]Mason et al., p. 408. Mason goes on to explain that disaggregation of the data into farm, urban, and business incomes is essential, as are regional differences.

[85]D. C. Rao, Economic Growth and Equity in the Republic of Korea, World Bank Reprint Series Number 52 (Washington, D.C.: World Bank, 1978). This study concentrates on the economic aspect of equity.

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As land reform equalized poverty in the rural sector, so the Korean War, in its destruction of industrial and urban assets, did much the same for the remainder of the country. Thus, with the armistice, the bulk of the populace, including the large refugee population that had fled from the north, faced the dire prospects of an uncertain economic future in a state of equalized misery, differentiated largely by remnants of a strong class system and the memory of its former perquisites.

The last element promoting equity in Korean society is the military. If a massive change in social structure has begun in Korea, with greater mobility and access in the society through some institutional change, it started first with the military and then has been reflected in part in the business community.

Based on a universal male draft system, the military offered the poor but promising man an opportunity for education based on ability (as did the Japanese military in the colonial era). Military experience at all levels has been an important, but unquantified, element in Korean economic growth, and its training provided the basic skills for a continuously mechanizing civilian society. Military leaders were placed intentionally in key civilian jobs to provide mobility for younger officers and to place trusted subordinates in influential positions, both bureaucratic and business. They have provided an interesting mix of effectiveness through combining internationally recognized competence in management with an ability to use more traditional associations, based on military academy graduating class affiliations, to accomplish their professional goals.

The effect of foreign training on thousands of Korean officers may never be known (nor is it possible here to determine the relationship in the Korean case between the military and economic growth). It is ironic, however, that the military command structure, while reinforcing the hierarchical nature of the Government to give it one of the strongest forces for effective implementation of foreign aid that donors have yet witnessed, opened significant avenues of social mobility for many males.

3.2 National Income and Income Distribution

Starting from a very low base, per capita annual income in Korea has risen rapidly since 1960. From about $60 that year, it reached over $1,883 in 1983, while per capita GNP rose from $180 in 1960 to $1,480 in 1981.[86] It is estimated that in the early 1960s, 40 percent of the population was below the poverty line,

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[86]World Bank, World Development Report, 1982.

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but by 1980 this had fallen to about 10 percent[87] (see Table 2). The World Bank however, estimated that by 1979, 18 percent of the urban population and 11 percent of the rural population were still below the absolute poverty levels of $370 and $310 respectively.[88]

Table 2. Percentage of the Korean Population[89] Below the Poverty Level, 1965, 1970, and 1976

Year	Urban	Rural	Total
1965	54.9	35.8	40.9
1970	16.2	27.9	23.4
1976	18.1	11.7	14.8

There seems no disagreement that poverty and its indices declined significantly between 1965 and 1976, with the first half of that period showing a more rapid rate of decrease than the second half. This difference was due to a more rapid rate of development in the first period.[90] A drop in the rate of poverty based on a high growth strategy with employment expansion means that the percentage of the "hard core" poor will be higher, as those with some economic mobility will rise above poverty, and that there will likely be increasing income disparities between elements of the population even if the majority are better off. This is also true for high growth in rural areas based on more effective agricultural inputs. There has been a shift of the poor from the rural to urban areas, as there has been a shift in the overall population. This is also probably because the majority of the functionally landless moved to urban areas, and remittances from the cities provide a large portion of the income of those left behind.

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[87]Asian Development Bank, 1982.

[88]World Bank, 1982.

[89]These figures are from Sang Mok Suh, The Patterns of Poverty in Korea, Working Paper No. 7903 (Seoul: Korea Development Institute, April 1979), p. 30.

[90]These and other statistics are from Sang Mok Suh, p. 62.

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If there is general agreement about the Korean accomplishments aggregated at the national level, or at least in the magnitude of the change as reflected in these figures, there is far less agreement about how this income is distributed. Some earlier laudatory comments have already been cited. The Asian Development Bank, while agreeing, in a later report adds a note of caution: "Despite the fact that income distribution has worsened in recent years Korea has managed to combine rapid growth with a fair measure of justice."[91]

This disagreement is complicated by past haphazard data collection, the time dimensions to which various comments refer, and the types of data that were excluded at varying periods. Kuznets wrote, "There is no regularly published information on how income is distributed among Korea's various income groups,"[92] and Choo noted the inadequate data on income distribution.[93] Mason commented that the data "are flawed in the extreme."[94]

The selective aspects of data collection and inclusion have caused many observers to treat the material with caution. Choo[95] noted the exclusion of eup (market town) residents from urban figures, those with incomes over W2 million from all calculations, and very small farmers from rural calculations. "These deficiencies in city and rural household surveys tend to result in a bias toward an over-representation of those nearer the mean of the size distribution of income by eliminating the representation of households in the two extreme income classes."

Rao[96] has also commented on the limitations of the data and suggested, "The urban survey is confined to wage and salary earners rather than to all income earners and excludes those who earn more than a specified ceiling; the rural survey appears to define income as inclusive of changes in the book value of inventories and thus to overstate rural incomes in periods of rising inven-

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[91]Asian Development Bank, 1982.

[92]Paul W. Kuznets, Economic Growth and Structure in the Republic of Korea, p. 62.

[93]Hak Chung Choo, Review of Income Distribution Studies, Data Availability and Associated Problems for Korea, The Philippines and Taiwan (Seoul: Korea Development Institute, September 1974).

[94]Mason et al., p. 408.

[95]Hak Chung Choo, Review.

[96]Rao, op. cit.

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tories and grain prices." Mason also has commented on the inadequacy of the information and the problem of exclusion, counseling caution in its use, and considered that national data are not useful, but must be broken down into urban, rural, and business categories.[97]

Reviewing the data for 1966, Oshima[98] in an earlier study noted that the data eliminated single-person households and rural households without arable land (generally the poorer groups); his analysis produced the distribution presented in Table 3.

Table 3. Income Distribution by Decile Groups for Korea and the Philippines, 1966 (percentages)

	1	2	3	4	5	6	7	8	9	10
Korea	4.0	5.0	7.0	7.0	9.0	9.0	11.0	12.0	15.0	21.0
Philippines	1.1	2.9	3.0	4.7	5.8	6.9	9.0	11.6	15.0	40.0

In comparison with the United States, Japan, Taiwan, the Philippines, Thailand, Malaysia, and Sri Lanka, these figures suggest that Korea has the most income distributed among the bottom half of the population and the least income in the top 50 percent. Oshima estimates the Gini coefficient for Korea at about 0.25 at that time, compared to the Philippines with 0.51. Official figures[99] for selected years between 1965 and 1980 are presented in Table 4.

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[97]Mason et al, Chapter 12.

[98]Harry Oshima, "Income Inequality and Economic Growth: The Postwar Experience of Asian Countries," Malaya Economic Review 15, 2 (October 1970).

[99]Asian Development Bank (1982) quoting the Economic Planning Board. Wade and Kim (pp. 79-81) indicate that in 1970, the lowest 40 percent received 18 percent of income; the middle 40 percent, 37 percent of income; and the top 20 percent, 45 percent of income. World Bank (1982) figures indicate that for the late 1970s (between 1976 and 1979), the highest 5 percent received 16.1 percent of income; the top 20 percent, 45.3 percent of income; the lowest 20 percent, 5.7 percent. What is more important than the discrepancies in these figures, which are relatively minor and probably all derive from the same or similar surveys, is that the income disparities are worsening.

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Table 4. Korean Economic Planning Board Figures on Income Distribution, Selected Years, 1965-1980

Income Bracket	1965	1970	1975	1980
Top 20%	41.8	41.6	45.3	46.7
Lower 40%	19.3	19.6	16.8	15.4

There seems to be no question that there has been a continuous rise in incomes in the period since 1961. (One year stands out as an anomoly because of the failure of the rice crop in 1980. The oil shocks played a role, but not to the same degree, as Korea deftly weathered those difficult periods.) Although all the evidence is supportive of a rise in incomes in real (as opposed to nominal) terms, there is also evidence that there are increasing disparities between incomes (see Table 5), both between the urban and rural sector and between the richer 10 percent of the population and those at the bottom.

Although there are those who argue that Korea has maintained reasonable income distribution because of policies supportive of equity, the contrary seems likely. Before the policy changes of 1971 that positively affected the rural sector--those of the Third Five-Year Plan--and those of the Fourth Five-Year Plan, which were designed to improve some of the social deficiencies in the society, it can be argued that Korean Government policies, at best, took little account of the poorest elements of the population. "Government labor and agricultural policies have discriminated against peasants and industrial workers, two major occupational groups at the bottom of the income-size distribution."[100]

There was little internal pressure after 1961 for government to consider the immediate needs of either the urban workers or the farmers, for there was little participation by either group in decision-making. Labor unions were closely controlled and strikes were not sanctioned (except against the U.S military with Government connivance), and local government was appointed, not elected. There seems general agreement with the conclusion that "Government policies toward labor in Korea prevented real wages from rising except in response to labor shortages in the late

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[100]Kuznets, Economic Growth, p. 106-7.

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Table 5. Within Sector[a] Income Inequality, Selected Years, 1963-1975
(in Gini coefficients)

Year	Rural Income Inequality	Urban Income Inequality	Business Income Inequality	Overall Inequality[b]
1963	NA	.337	.541 (1964)	
1967	.357	.315	.570	.344 (1965)
1970	.296	.273	.636	.332
1975	NA	.313	NA	.381

[a]From Mason et al., p. 411
[b]From Sang Mok Suh, p. 40

1960s."[101] A study of labor management negotiations from 1977 to 1981 indicated that by 1981 union representation was essentially meaningless in bargaining terms. Final settlements averaged only 1.6 percent over managements' initial offer.[102] Since that study was made, labor legislation has become even more stringent, and labor unions have lost many members, as unions have become illegal in smaller work units. The Korean Federation of Trade Unions estimates that in May 1983, monthly salaries for all workers averaged about half of the $685 monthly income required to maintain minimally a family of five, and the gap is widening.

Whether Korea was justified in equity terms in keeping urban manufacturing wages low at the beginning of the export drive (and attempting to keep increases as low as possible today) is a separate issue, but it has allowed Korea to compete effectively on the international market. There is, of course, the argument that the most important aspect of improving income distribution is to provide employment, and this the Government did. Official figures on unemployment are often suspect, but the large migra-

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[101]Charles Frank, Kuang Suk Kim, and Larry Westphal, Foreign Trade Regimes and Economic Development: South Korea (New York: National Bureau of Economic Research, 1975), p. 242.

[102]Sooken, Kim, Employment Wages and Manpower Policies in Korea: The Issues. Working Paper No. 82-04, (Seoul: Korean Development Institute August 1982), p. 73. See also, "Labor Problems. Long-Term Peace Prospects Look Poor," Far Eastern Economic Review, July 19, 1984.

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tion of the rural population into the cities (Korea is now essentially an urban society and the farm population is rapidly aging) and the growing proportion of urban remittances as a percentage of rural income would seem to validate the estimates of the drop in unemployment rates from 8.2 percent to 4.1 percent and underemployment from 24.4 to 11.4 percent. Government also, however, could be accused of sanctioning underpayment of women who, for the first time, entered the industrial labor market in large numbers. They were paid wages in semi-skilled, light industry (such as in textiles, battery manufacturing, and so forth) that were clearly a form of supplemental family income, not a living wage, and were substantially lower than those of the male population. Korea in the past has refused to have a minimum wage and did not join the International Labor Organization (ILO) for that reason. Such a wage, however, is likely in the next few years, and Korea plans to join the ILO in 1985.

Increasing employment has been critical to equity:

> Korea was driven by the forces of comparative advantage to expand labor-intensive manufacturing activities. This has generated a rapid growth of employment, which directly benefited those at the lower end of the income scale. The marked improvement in the employment status of the population is undoubtedly the most important continuing influence in favor of equity in Korea.[103]

Real urban-worker income did rise significantly, as shown in Table 6. It doubled between 1965 and 1970, and almost doubled again by 1980.

It is virtually impossible, however, to determine the degree of donor community contribution to growth of employment, and the proportion of that growth to which we can assign commercial flows, private foreign investment, and the growth of a strong overseas labor market and construction industry (that by 1981 employed 168,000 Koreans[104] and was valued at over $13 billion).

Donor assistance, however, was calculated to be important in this process. The Asian Development Bank, for example, estimated

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[103] Rao.

[104] World Bank, 1982. The Bank of Korea shows no individual remittances or construction contract reflows to Korea before 1970. (The Vietnam War effort is separately calculated.) Construction and services abroad grew from $1.8 million in 1970 to $2.4 billion in 1982 ($1.9 billion in 1983). Individual remittances were $33.1 million in 1970 and $120.6 million in 1983.

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that loans to the Korea Long Term Credit Bank alone generated some 56,137 jobs between 1968 and 1983 at an average cost of $39,700, but that costs per job had risen from $28,000 for the first loan to $86,000 for the third.[105] This increase was partly due to inflation, and partly to the expansion of the capital intensity of investment; the capital output ratio went from 2.4 to 6.3 as Korea moved into heavy, capital-intensive industry.

Table 6. Growth of Korean Urban Worker Household Income, Selected Years, 1965-1979 (constant 1970 won)

Year	All Salary & Wage-Earner Households	Annual Increase	Daily Wage-Earner Households	Annual Increase
1965	16,750		9,946	
		14.1%		15.3%
1970	32,401		20,257	
		2.3%		2.2%
1975	36,361		22,542	
		12.7%		14.3%
1979	58,607		38,443	

Source: Republic of Korea Statistical Yearbook, various years, adapted from a dissertation by John Slaboda.

The prospects for improving equity over the next decade by continuously expanding employment look dim. To keep competitive in the world market, Korea is wisely planning to move into export industries with a higher level of technology, leaving the traditional light industries, where labor productivity and wages are lower, to other countries or (as in Bangladesh) investing in textile manufacturing there. This will mean greater capital intensity of employment and generally a slower expansion of employment. This will come during a period when, because of normal lag time, the labor force will be expanding faster than the population growth, even though the latter has dropped from 2.8 in 1960 to 1.6 in 1979. This is likely to continue until the end of this

[105] Asian Development Bank, 5th Loan to the Korea Long Term Credit Bank, KOR-Ap-64, October 1983.

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century.[106] As traditional attitudes erode, more women are likely to enter the labor force; their participation has already increased from 25.8 percent in 1960 to 32.6 in 1979.[107] If, as seems likely because of widening income disparities between rural and urban sectors, rural migration continues, slower growth in employment in more capital-intensive industries will have important implications for continued equity.

Rao has calculated the equity implications under different growth levels. He concluded that unless there is substantial and sustained growth, the Gini coefficient of 0.383 for 1976 might rise to 0.456 by 1990: "the rate of growth of Korea's GNP would have to be sustained at over 9 p.a. [per annum] in order to prevent an increase in the number of those below the minimum income level and a steady deterioration in relative inequalities of income."[108] Although 1983 reached that level (9.3 percent), it is not planned for the balance of the Fifth Five-Year Plan and is probably not consistently attainable.

Another economic aspect of equity to be considered here is access to the marketplace. To what degree has the Government fostered equal access to the market? In the expanding Korean economy, access to internal and external markets is largely a product of access to credit.

The credit mechanisms in Korea are twofold: (1) the curb or informal market that until recently was unstructured, volatile, and poorly documented with high interest rates prevailing; and (2) the institutional markets that have been virtually controlled by the Government. The Government has been able to control the allocation of credit, both foreign and domestically generated, through its domination of the banks in urban areas and the National Agricultural Cooperative Federation in the rural sector. Because most business expansion is financed with debt, the state has used the credit level to wield power over the economy by allocating credit to those industries it wished to encourage and to those companies that have performed well. Thus, success in exports has meant the availability of further funds for additional export promotion, trading, importing, or production for internal purposes. Control over credit, together with state control over critical corporate personnel and the financial com-

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[106]Rao, op. cit.

[107]The figures for the rise in female participation in the labor force seem low, but the general characteristic of younger women leaving the force after marriage means there has been a great turnover of women entering and leaving.

[108]Rao, op. cit.

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position of corporations, has allowed the executive branch to dominate the economy.

It is significant that curb market debt as a percentage of total liabilities is directly related to firm size. In 1977, firms with 5-9 employees had curb market debts of 14.1 percent, but firms with over 200 employees had only 2.1 percent. Overall debt (liabilities compared to net worth) was 30.6 percent for the 5-9 employee firm, but 265.4 percent for the 200-299 employee firm and 349.3 percent for firms with 300 employees or more.[109] The conglomerates have an average paid-in capital of 18.1 percent, and their debt-equity ratio in 1983 was 455 percent, compared with 360 percent for the whole manufacturing sector. There are some who regard this as indicative of a weak industrial structure.

There has not been equity in access to business opportunity in Korea. It has been the clear policy of the Government to provide support to the chaebol (conglomerates). Economically, this has been a very successful policy, and it is argued by some that Korea's deft management of the 1979 oil crisis and political turmoil after Park's assassination was due to the operation of the chaebol and their diversified investments. In terms of access to the marketplace, this of course has given these companies the major advantage of being the chosen instrument of Korean economic (and foreign) policy, with the ability to expand even more widely and rapidly. The U.S. Government has noted that some of its assistance that was intended for small and medium industries in fact went to large concerns and that the intended beneficiaries were not assisted to the degree anticipated.

Although there is a vibrant private sector, with high levels of corporate expansion (and failure), it has remained under the thumb of government. In this sense, equitable access to credit has not been evident in Korean society. The donors have done little to change this situation and, through support to various development banks, have fostered this pattern.

Environmental degradation has social and economic costs for equity, and in this area the record of the Korean Government is mixed. The early quest for industrialization and for the spread of foreign investment prompted the state to ignore the environment. At least one report by foreign consultants warning of environmental degradation was suppressed and its contents never released.

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[109] Lim, p. 42.

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The result was widespread air and water pollution from industrial plants (and in urban areas from automobiles). In some cases, irrigation water could not be used because of its toxic effect on rice plants. There is also the unknown degree to which the extensive use of herbicides (to cut labor costs), pesticides, and fertilizer may have affected the health of rural populations.

Since that early period of export expansion, however, there has been a concerted Government effort to protect and improve some environmental conditions. The reforestation program in Korea has altered the landscape; it may be the only successful national reforestation program in the world. More stringent pollution control mechanisms may be in place. However, the author has seen no data indicating that donor-supported projects have been turned down for their potential negative environmental impact. It is important to note that donor support for sewage and waste disposal treatment facilities are positive elements on donors' environmental records.

The final economic aspect of equity is the sharing of the tax burden. Tax statistics in most countries may be severely limited because of evasion and collection problems. Korea is no different, but there seems a general consensus among observers that Korea has not introduced a particularly progressive tax structure. It is certainly not designed to redistribute income, nor, as in some other states, does it attempt to limit access to the affluent community. It is, rather, formulated to promote savings and reduce evasions and distortions.

Korea relies more on import and other duties and taxes on luxuries than many other states. Although farm income is not normally subject to taxation, how does one account for the "voluntary" donation of funds or labor for the myriad Saemaul (New Community) projects that dot village landscapes? Such contributions do not enter the tax statistics.

A value-added tax (VAT) was introduced in 1977, designed to replace a more complex series of taxes and exert a favorable influence on exports. However, the issue of the regressive nature of the VAT continues to be fervently debated. There is no question that the burden of the VAT has fallen more heavily on those with lowest income rather than those with the highest income, and on nonfarm families rather than farm families. Statistics vary, but estimates range from a burden of 2.42 percent to 3.91 percent for those with higher incomes, to 3.62 percent to 9.38 percent for those with lowest incomes. The farm/nonfarm ratios are 2.90 and 3.82 percent, respectively, for

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the higher income groups, to 8.44 and 9.38 percent for those with lowest income, respectively.[110]

The tax burden does not appear to have fallen on any one particular group, although as in most societies the wage earners are most likely to be taxed because their income is most obvious. The audit and accountancy functions do not, for example, deal with the conglomerates as a unit, but rather with their individual components, which may allow these firms more flexibility in dealing with their tax obligations. Further, the Government always has at its disposal the explicit threat of tax audits to encourage corporations to follow governmental guidance.

Aside from early donor efforts to encourage the Government to improve its tax collection, and some technical assistance in this field, the tax issue, except insofar as subsidies can be considered as a form of negative tax, has essentially been ignored by the donor community. Of course, income redistribution can come about through targeted government expenditures and through the tax system, and such rural subsidies are one form of attempted, and successful, income redistribution.

3.3 Rural Income and Rural-Urban Differentials

Most developing nations that are predominantly agricultural predicate their development strategy on an agriculture-first policy: this is also the policy of some bilateral donors such as the United States. Korea, however, opted for a different path--using the surpluses generated through exports produced in urban areas to fuel agricultural growth. It is evident that for over two decades the governments of Korea felt that they could afford to slight the rural sector. They were assisted in this approach by the predominant donor over much of that period, the United States.

The early conception, perhaps for the decade beginning with liberation, that South Korea's future lay in agriculture, was based on assumptions that were both natural and inaccurate. It was true that South Korea was more agricultural than North Korea, and the pre-World War II record demonstrated that Korea could be a food surplus state and could export food grains to Japan. What the latter conclusion obscured was that Korea did this through forced Japanese rice procurement by drastically curtailing domestic consumption and by substituting other (inferior) grains

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[110]Kwang Choi, Value Added Taxation: Experiences and Lessons of Korea, Working Paper No. 84-06 (Seoul: Korea Development Institute, March 1984), pp. 47-49.

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as rice went to fuel Japan's military expansion. The Nathan Report of 1952 thus recommended that Korea adopt a development strategy that would focus on agricultural exports.[111] It was never implemented.

The poor economic investment possibilities in rural areas and the generally conservative nature of the peasant population after the Korean War (there had been considerable radicalization of farmers following liberation and before land reform) allowed the governments of Syngman Rhee, Chang Myon, and Park Chung Hee for the first decade of his rule, essentially to ignore the rural sector in favor of placating the potentially mercurial political views of a growing urban people. Thus, consumer prices of staples were held down to keep possible urban economic unrest under control.

The United States, through its PL 480 program, was able to provide surplus foods to Korea on a grant basis. These grains, mostly wheat and rice, (cotton was also important for textile mills, and its supply was about half of PL 480 imports) were then sold on the local market, the local currency generated providing much of the revenue of the Korean Government. Between 1955 and 1971, the value of these imports totaled $777.6 million (an additional $436.1 million was provided by loan agreements between 1968 and 1973).[112] This was a short-term ameliorative mechanism that was in the longer run destructive of sounder economic planning. The program met U.S. national objectives in a quite limited sense: it immediately disposed of U.S. grain surpluses; it established a commercial market for U.S. products (Korea, which was 36 percent self-sufficient in wheat in 1961, is now 2 percent self-sufficient and is supplied essentially from the United States; cotton production, which was important, is now virtually nonexistent in Korea); and it assisted general U.S. foreign policy objectives, which were to support the Korean Government and people. It has been said that PL 480 was the principal means to carry out donor objectives: "Based on the size of the program and the control which the U.S. may exercise over the use of local currency generations, it can be said that the Title I [PL 480] program has become the principal economic tool through which U.S. foreign policy objectives in Korea are being carried out."[113]

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[111]Robert R. Nathan Associates, "Preliminary Report on the Economic Reconstruction of Korea," December 15, 1952.

[112]An additional $433.8 million in food was imported for feeding programs but not for resale.

[113]GAO Report, 1972, op. cit.

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Yet this aid program destroyed any Korean Government initiative to improve rice and barley production through pricing policies that provided a fair return on imputed investment. Until the late 1960s, the overall costs of production of rice (including imputed labor costs) were in excess of the Government purchase price, which, although not a monopoly, was sufficient to control the market.[114] Farmers grew rice under such conditions for a variety of reasons: they needed it for substance, it was customary, and they did not value their labor as there were few economic alternative uses of their time.

There were several factors that caused the Park Government to change its policy toward the rural sector. Park had been under pressure in 1967 from opposition politicians to provide assistance to the rural population; PL 480 in the late 1960s was changed from a grant program to hard currency (although concessional) loans; and when in the 1971 election his sources of support were severely eroded in the rural areas, the Government resolved to take action. The result was increased grain prices to farmers, more rural infrastructure, and the Saemaul (New Community) Movement. This period coincides with the spread of the new high-yielding varieties of rice that markedly increased yields. Since that experience, however, Korea has learned that the traditional rice varieties respond to the same treatment as the newer high-yielding varieties, often within 10 percent of total yields.[115]

Since the export drive began after the coup of Park Chung Hee in 1961, and especially after the infusion of Japanese reparations and assistance following normalization of relations with Japan in 1965, urban salaried income began to rise as industry expanded and urban labor shortages occurred. Rural incomes, however, remained depressed by the low prices for the basic foodgrains of rice and barley.

Although pricing levels were to continue to be low for a long time, the regime, following foreign technical assistance provided by AID, reformed the agricultural bureaucracy by forming the Office of Rural Development, incorporating research and extension into one system.[116] The Government also consolidated the National Agricultural Cooperative Federation, providing the basic bureaucratic structure that was to allow expansion of agricultural programs when the political will was ready.

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[114]See Ban et al.

[115]See Steinberg et al., Korean Agricultural Services.

[116]Ibid.

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The decisions to improve income and performance in the agricultural sector were not only predicated on positive shifts in grain pricing but also on a coordinated effort at rural mobilization that resulted in an infusion of funds into rural infrastructure, such as irrigation, roads, and electricity, all of which were supported in part by foreign economic assistance and were essential components of enhanced rural equity.[117]

It was fortunate that at the time the Third Five-Year Plan was being formulated, calling for increased attention to rural development, the new high-yielding varieties of rice were being introduced and tested in Korea. The results were an extension service in place, widespread irrigation, fertilizer availability (through foreign assistance),[118] and credit mechanisms working (also partly supported by foreign aid) that enabled the rural economy to take advantage of the new seed varieties.

The confluence of political will, technological innovations, and the administrative mechanisms produced an explosion of production that, by 1976, raised Korean rice production to the highest level per hectare in the world, for a short period even surpassing Japan. The goals achieved were not only economic but also political and strategic, but they were short lived. Political expediency to attain the political goal of rice self-sufficiency pushed too far and too fast varieties of rice that Korean researchers warned would eventually fail. They did fail in the disastrous crop year of 1980, a failure officially attributed to cold weather. The literal truth of that assertion, however, obscured the political and administrative ramifications of the decision to proceed with a single variety ill-suited to the varying climatic conditions in Korea. It was ironically a testament to the capacity of the Korean bureaucracy, which ably implemented such a decision, however inappropriate it may have been.[119]

The Koreans, with their high-pricing policy resulting in producer rice prices over two times the world market price, were quietly following a successful Japanese model; but where the ruling Liberal Democratic Party in Japan required the support of the farm bloc to continue in power, the Korean Government, from an outside perspective, seemed under no such pressure. To placate the urban population, consumer prices of these grains were also held down. Thus, the Government found itself through the Grain Management Fund supporting subsidies for both the rural and

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[117]See Steinberg et al., Korean Agricultural Services.

[118]See Steinberg et al., Korean Agricultural Services.

[119]See Steinberg et al., Korean Agricultural Services.

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urban populations, a situation that would eventually prove economically intolerable.

The deficit was financed by an expansion of the money supply, thus fueling inflation in which the whole society would pay the costs of these subsidies. In opposition to the Ministry of Agriculture and Fisheries, the Economic Planning Board staff resolved to cut the deficit. The IBRD structural adjustment loan of October 1983, as one of the conditions and supporting widespread concerns previously expressed by Korean planners, called for the elimination of these subsidies by the end of the Fifth Five-Year Plan in 1986.

Subsidization of grain prices through the Grain Management Fund by 1983 cumulatively reached $1.7 billion. In addition, the fertilizer subsidization had accumulated deficits of $700 million.

Contrary to some published figures, farm household income had lagged far behind urban household income (the comparison between farm household income and urban salaried income was not quite valid). Between 1965 and 1970, when the export drive was entering high gear, average income of urban and salary wage-earner households rose in real terms by 14.1 percent and daily wage-earner household income by 15.3 percent.[120] In contrast, farm household income only rose by 4.6 percent during this time.

In the 1970-1975 period, after grain prices were raised and the high-yielding varieties of rice began to be distributed, farm income rose more quickly than urban salary and wage-earner households (6.5 percent compared with 2.3 percent), partly as a result of the first oil price increase and its effect on the urban economy. From 1975 to 1979, the growth pattern was again reversed: farm income rose by 5.7 percent, whereas urban salary and wage household income increased 12.7 percent. Urban daily wage-earner households, however, essentially equaled farming household income. Overall, urban households continued to be more affluent than rural ones, for the effective exclusion of most academicians, businessmen, higher civil servants, and professionals from the statistics markedly skewed the comparison.

Since that time, it is likely that disparities between the urban salaried worker households and farm households nave grown. Although a greater proportion of farm households receive income from nonfarming sources (especially from urban remittances), the disastrous harvest of 1980 and the freeze in rice and barley prices in 1983 mean that farm income will probably continue to

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[120]These and the following figures are from John Slaboda (personal communication).

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decline in constant currency due to inflation and that the elimination of the subsidies of the Grain Management Fund by 1986 will see a further decline in rural-urban equity in the rural sector. A move by Korean farmers out of rice and into high-priced specialty crops would help solve the issue, but it is currently illegal and would likely be politically and emotionally traumatic. Elimination of the land-holding ceiling would allow increased farm income, but for fewer farmers, with the remainder driven off the land into the cities. Urban employment would thus have to continue expanding.

The Korean Government is well aware of the need, under present and likely circumstances, to increase the proportion of nonagricultural income of rural inhabitants. In 1962, 20.4 percent of rural income came from nonfarm sources, including wages (9.4 percent), remittances (7.2 percent), and other businesses (3.8 percent). By 1981, 32.8 percent of rural household income was from nonfarm sources, including 19.9 percent from remittances and savings. The highest off-farm income is, naturally, in families with less than 0.5 hectare (64.0 percent in 1981).[121] In Japan, the figure is 80 percent and in Taiwan, 73.6 percent.[122] The potential for such growth, however, is limited because of a lack of appropriate institutional financing (essentially a monopoly of the National Agricultural Cooperative Federation) for nonfarm employment opportunities at the village level.

The failure of the Saemaul industrial program, which subsidized the establishment of 741 factories and was designed to introduce labor-intensive industries in rural areas in the mid-1970s, was due to its quick formation as a political imperative; and its export orientation occurred just when there was a slump in the world market and internal transportation costs were high. One-third of these small factories, often branches of larger concerns, closed and most of the remainder operated at low capacity as they were not competitive with the larger concerns. Nothing has yet replaced them.

It should also be noted that the recent decline in rural income is reflected in two other statistics: the rise in rural indebtedness and the increase in tenancy. Rural indebtedness, before the agrarian policy changes, in 1965 stood at 106 percent of current farm assets (including land values). At the height of the agricultural success in 1976 when rice production (49 percent

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[121] See Kim Jong Gie, Rural Industrialization in Korea: Current Status and Future Policy Directions, Working Paper No. 83-08 (Seoul: Korea Development Institute, September 1983), pp. 7-8. Also, Steinberg et al., Korean Agricultural Services.

[122] Ibid.

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of gross farm receipts) peaked, it dropped to 20 percent, but by 1982 it had once again risen to 94 percent.[123] At the same time, tenancy has been on the increase, so that by 1981, 46 percent of farmers were complete or partial tenants, and 22 percent of the land area was tenanted.

Growing pressures to increase the statutory limit on land size, which would make mechanization more feasible and thus increase the productivity of rural labor (but not necessarily total production), would also probably result in heightened disparities in income distribution within the rural sector.

Rural incomes are likely to further decline, as farm income is still largely dependent on rice. Significant off-farm employment is still a distant prospect, and continuing migration of youth (both male and female) into urban jobs seems likely with the aging of the Korean farm family. This, without compensatory factors, would probably lead to lower productivity, but the Government will continue to attempt to offset this with mechanization. Although grain and fertilizer subsidies may be lessened or eliminated, there remains considerable subsidization by Government in other aspects of the rural sector, including irrigation, roads, mechanization, and credit.

The donors' response to the rural inequities in Korea have been one that essentially followed Korean Government's policies. Except for one irrigation loan each, the multilateral donors did not invest in the rural sector until Korea emphasized it in 1971. The United States only provided $36 million in grants directly for agriculture and natural resource development between 1954 and 1975, although an indeterminate but substantial amount went for rural activities under loans and under general support to the Korean budget. Because of the PL 480 program, the United States can justly be charged with exacerbating rural inequities, but in other fields the donors simply accepted Government program direction.

3.4 Regionalism and Equity

The patterns of regionalism in South Korea are too persistent to be ignored. Dating back to the period of the Three Kingdoms in Korea (unified in 668 A.D.), there has been some social discrimination between those from the Cholla provinces in the southwest and the remainder of the country. These have been marginal differences in perspective, but they became of greater importance politically because the opposition to Syngman Rhee was

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[123] Ibid.

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centered in that area. From the Third Republic on, these two provinces were also regarded as the seat of opposition to the Government. This culminated in the Kwangju insurrection in May 1980, which was forcibly suppressed by the Government, with many lives lost. There were charges that the southwest had been discriminated against in the introduction of highways and industrial development.

There is some evidence for this. Part of it, no doubt, came from the better port facilities of the southeast (the southwest being largely agricultural with shallow harbors), and also because, as in most developing nations, rapid economic growth usually occurs in the capital and its surrounding area. Regardless, there was perceived economic discrimination. It may be significant that the failure of Saemaul rural industry in the Cholla provinces was over double that in the more favored Kyungsang provinces (Presidents Park and Chun are from this region) of the southeast. Income was also skewed. In 1968, for example, per capita income in Seoul and Pusan was over double that of the Cholla provinces and income in Kyungsang provinces was about one-fifth higher.[124] Further, these disparities had been growing. Rural industry in 1970 in Chollanam and Chollabuk Provinces was 17.8 and 11.2 percent, respectively, of all national rural industry; by 1980, it had dropped to 12.9 and 7.5 percent, respectively (employment had also fallen to 7.4 and 3.1 percent, respectively). On the other hand, Kyonggyi Province (around Seoul) had doubled its industry over the same period to 30.6 percent of national industry, and Kyonggyi Province in 1980 had also expanded to encompass 27.7 percent of rural industrial employment.[125]

The bulk of industry in Korea is located in the Seoul area and the surrounding province of Kyonggyi, and then in the southeast, especially in or near the cities of Pusan, Taegu, Masan, Ulsan, and Pohang. It is not surprising that a review of the funds provided by the IBRD and the ADB to various banks for relending to industry indicates that only perhaps 5 percent went to the Chollas, which have about one-fifth of the national population.

In that sense the donors were following the lead of the Government and reinforcing these disparities. However, there has been a persistent effort by some donors, especially the IBRD, to

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[124]Bertrand Renaud, "Conflicts Between National Growth and Regional Income Equality in a Rapidly Growing Economy: The Case of Korea," Economic Development and Cultural Change, 21, 3 (April 1973).

[125]Kim Jong Gie, pp. 13-14.

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engage in regional development, and it is to the credit of the IBRD that its focus on the Kwangju region has been longstanding. Figures on donor support to rural infrastructure, such as roads and irrigation, show no evidence that the donors intentionally exacerbated the discrepancies that already existed. Although donors could greatly influence how their funds were spent, they could not effectively control them, for the recipient's own resources were by far the overwhelming proportion of monies available. Donor lending was provided to those areas where it made sense economically, following Korean Government leads. Such lending was designed neither to alleviate income differences nor to correct past deficiencies, and it accomplished neither.

3.5 Aspects of Social Equity

There has been general improvement in social services throughout Korea and the introduction of social security. In addition to the equitable spread and accessibility of higher levels of education, both by region and by gender, electricity reaches most of the remote rural homes on the peninsula, and only a few isolated islands are without it. Rural electrification has generally been a consumption rather than a production good in the rural setting, as little use is made of it for farm-level productive enterprises. Its primary functions seem to be for lighting, television, and fans. (In the sense that Government controls all the media, from the state's viewpoint it is also a political good.) Water and sanitation have greatly expanded in urban areas and, to a lesser degree, in rural areas. The IBRD, ADB, and, earlier, AID have all given major support to improved sewage and water supplies for the major urban areas. There has lately also been an increase in donor support to water and waste treatment in the smaller urban communities. Safe water is now said to be available to 85 percent of urban and 55 percent of rural households.

There has also been a general improvement in health and nutrition. The average life expectancy has risen from 54 years in 1960 to 63 years in 1982, infant mortality has dropped from 62 to 37 per thousand live births, and although the Government spends only a small percentage of its annual budget on health, the availability of services has increased. In rural areas, this has been not so much a product of better hospitals, preventive care, or medical services; but rather a result of improved rural transportation (roads, buses, and taxis), together with telephone service, so that in emergencies, transportation to a hospital is possible. As in most developing countries, doctors are concentrated in major urban areas, but medical personnel now may serve in provincial areas in lieu of military service. The population-doctor ratio fell from 3,539 in 1960 to 1,986 in 1982. The ratio of population to hospital beds has also declined signi-

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ficantly from 2,482 in 1960 to 643 in 1982. Most health expenses, however, are privately financed, with only 15 percent of total gross health expenditures borne by government, which also controls only 13.1 percent of health care institutions and 18.7 percent of hospital beds.[126] Nutrition standards are well over the daily requirements for both the whole population and subgroups, although traditional child-feeding patterns, which are nutritionally poor, are generally retained.

Although there is evidence[127] that mobility has been limited at the apex of the economic and social ladder, except through the military channel, there is considerable mobility in the economy at the lower and middle levels. The expansion of economic activity has, of course, required this, but it has been assisted through the activities of donors that have strengthened the technical educational system. This has allowed mobility through an alternative channel to the prestigious academic system that normally dominates a Confucian-oriented society. In this sense, the donors, especially the World Bank, have furthered the process by supporting many of the institutions contributing to such mobility and the development of such skills.

The issue of participation, broadly defined as the involvement in the economic and allocational decision process of those whom development affects--in contrast to the overall political process of choosing national or local leadership--is one that has flowered for three short periods in Korean history. These eras followed liberation from Japan in 1945, the overthrow of Syngman Rhee in 1960, and the assassination of Park Chung Hee in 1979. Each was an intensely participatory period verging on the chaotic, and each began to unloosen the encumbering strands of state control, only to be followed by a reaffirmation of the centralized power of the political leadership.

Korea has had a strong heritage of central control. People generally believe that power is finite; to share or delegate it is to diminish proportionally one's own. It may be argued that the pervasiveness of state control was one factor in retarding the development of major entrepreneurial investment or industry in the classical period. This tendency was reinforced by the Japanese colonial period and, inadvertently, by the U.S. military government.

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[126]Korea Development Institute, Development Strategy and Policy Priorities for the Fifth Five-Year Development Plan, Working Paper No. 8003 (Seoul: Korea Development Institute, April 1980), p. 154.

[127]Jones and SaKong, op. cit.

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The extent of central Government (it should be remembered the all local government is appointed and is an arm of the Ministry of Home Affairs, which also controls the police) intervention into the economic, social, and cultural lives, let alone the political process, is ubiquitous. The regulatory functions of the state intrude into the daily lives of every citizen, controlling much of the mundane aspects of living, especially in rural communities. The anonimity of urban Korea is in contrast to the rural areas and may be one of its attractions, more because of the removal of some Confucian strictures than because of political influence.

Some have argued that despite the heavy hand of government in rural development through the Saemaul Movement, citizens have a greater share in the process than before. This may be true, but it is the concept of a limited role within effectively statist regulations and objectives.

As the economy has expanded and become more complex, there have been pressures of sheer efficiency to release some of the bonds of state regulation. This has included some pressures from abroad, and planned liberalization of imports, the operation of both foreign and domestic banks, and more generally the functioning of the economy. These forces for liberalization are real and have been generally supported by foreign donors, Korea's trading partners, and many of Korea's trained economists. Although there are those who favor liberalization, vested interests and bureaucratic inertia are likely to slow such processes.

Donors have often suggested policies of macroeconomic liberalization, and the Korean Government has slowly moved in this direction, more likely because it perceived it to be in Korea's own interests rather than because it was abstractly desirable. The Government has done so when its political and economic power base either was not threatened or could be enhanced by such moves. The Fifth Five-Year Plan, in which more reliance on market mechanisms is advocated, is such an example.

There seems little question that liberalization will continue, but it is likely to do so in a slow, episodic manner. The donors' contribution to the process is evident in some fields, such as helping encourage the Government to play less of a dominant role in pricing, but the historic tendency in Korea points in the direction of centralization.

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3.6 The Status of Women

The development process in Korea has provided Korean women with increasing opportunities to work, but discriminated against them in wages and status. Female participation in the labor force has grown, but not as rapidly as a percentage of the labor force as one might expect. This is due to the pattern of women entering the urban job market and working only until they are married or until their first child is born. There is thus a constant turnover in female labor supply, with female participation in light industries, such as textiles and electronic assembly, very important to those fields. Women in the work force are generally young. In 1973, 82 percent of all women in the modern labor force were between 18 and 29 years old, and over 88 percent of all female clerical workers were under 24 years, as were 64 percent of all women in manufacturing. In larger firms, the women are often housed by their factory. Income is considered supplemental to general family income, and wages are shared with the whole family or saved as dowry. In 1978, female wages were only 46 percent of male wages. Although there is no statistical evidence, it seems likely that rural women enter the urban labor force not only for the remuneration but secondarily for the mobility associated with leaving the rural community, the desire to escape from the rigid confines of the Confucian village society, and to marry into urban households. Women interviewed said that they did not want their daughters to marry farmers. There are few women in the higher levels of government; for example, there is only one woman in the Economic Planning Board in a supervisory role.

Women have fared poorly at the farm level even with rising incomes, for their work has increased while the family labor associated with the farm has diminished. Women have taken on nontraditional roles in some occupations, and there has been a growing number of women in higher education. Avenues for women are still restricted, although Korean women may have progressed further, from a very low beginning, than the other women of northeast Asia.

The donors' role (after early military government assistance in education) has been essentially neutral. Insofar as development has opened up employment opportunities for women, and donors have contributed to such possibilities, their contribution has been useful but essentially inadvertent. No major donor seems to have consciously designed projects or offered assistance that would have positively enhanced the status of women, although some small foundations have tried to do so.

Women are still disadvantaged in Korea. Despite past constitutional provisions specifically indicating their equal status with men, this is still ignored both in fact and in law. Positive change, however, is likely over time.

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3.7 Equity and Foreign Assistance

The contribution of donors, especially the United States, to the relief of Korea after World War II and the relief and rehabilitation after the Korean War was both positive and critical to Korea's survival. It is important to qualify this, however. Although foreign relief assistance was effective, it was not in the hands of the Korean Government, but was administered largely by the donor. That situation is unlikely to offer many lessons germane to other nations, as the Korean experience may have been unique.

Equity is highly valued in parts of Korean society, despite its hierarchical structure. This may in part be due to the Confucian concept of literati (i.e., bureaucratic and intellectual) responsibility for ensuring the health of the state, coupled with modern student (i.e., younger literati) concerns with social affairs. It may also have been affected by the remarkable growth of Christianity over the past two decades.

Donors have had an important influence on equity policy in Korea, but it occurred prior to the formation of the Korean Government. The single greatest foreign contribution to equity in the country was the land reform carried out under foreign military government auspices and based on foreign models. It no doubt was profoundly important to equity in Korea, and remains so today, despite some erosion in its effect. This is an outstanding achievement of a particular type of foreign assistance that is unlikely to be replicated in many places and certainly not under similar conditions. Land reform in all analyses of Korean income distribution is regarded as elemental to rural equity, and may be similarly considered in many other nations.

Equity issues are so largely related to policy and to the distribution of power that, if Korea is any example, both relatively weak but authoritarian governments and strong nationalist ones will try by varying tactics to control policy and shape the equity issues to their own interests. Syngman Rhee did so by manipulating one bureaucratic element of the donor against another, each having differing parochial interests. Bilateral donors are more subject to this sort of alternating pressures than multilateral donors. It should be mentioned here that the Japanese aid program has not at any time attempted to influence or shift policies related to equity. They have accepted with apparent equanimity this aspect of the status quo in Korea.

There is no evidence that the Korean Government made any concessions either to donor policies as contained in the donor's own regulations (e.g., the Foreign Assistance Act of 1973 in the United States, concentrating assistance on the rural poor) or to donor requests for reforms leading to more equitable distribution

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of the benefits of development until the Korean Government perceived it was in its own interests to do so.

There thus is no indication that the donors, either through project or program assistance and without regard to the magnitude of funds, had any significant impact on improving equity by prompting changes in Korean Government policies. One might ironically speculate that this is to be expected when professional economists, Korean and foreign, talk to each other, for they share a common set of academic values. When the Korean Government made such changes, however, donors supported those shifts through their projects.

The reverse seems apparent as well. Policy changes in equity as suggested by donors have been ignored on the rare occasions when they have been proferred. Despite repeated exhortations by the United States to reform its agricultural policy to provide better livings to Korean farmers, the Government did not do so until it became evident to elements of that Government that to continue to neglect the rural sector would lead to further erosion of the power base of the regime.

It is also significant, insofar as equity is related to participation, that the donors have had no effect on improving participation in Korean society, which remains minimal. Local government remains appointed, not elected. The participatory nature of the Saemaul Movement, sometimes cited as democratic in concept, is open to dispute, as there is an indistinct line between mobilization and participation. What is apparent, however, is that whatever the degree of local participation, it was developed and sanctioned by the Government of Korea at its own pace and in its own way.

There may be an indirect effect on equity policy by participant training through foreign assistance, but it cannot be demonstrated except in individual circumstances. In any effort to build up a critical mass of officials or technicians over time, they may positively affect policy as they rise in the bureaucracy. Although there may be an indirect relationship to the donors, it is virtually impossible to quantify and is tenuous at best.

The persistent policy discussions that occur between advisers and officials over prolonged periods may eventually have some effect, but it is impossible to trace such causality with any certainty. This type of dialogue is desirable but is probably impossible to evaluate.

Once the Government has decided on a course of action, however, or if the matter under consideration is technical, donors may have a profound influence within these important strictures. Thus bilateral donors can help effect the equitable allocation of

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credit once it is decided which organization will control it, how to raise incomes and yields through technological improvements in industry or agriculture, and other project-level activities.

The greatest contribution to overall equity in Korea by donors has probably been the overall support of the industrial sector, as evidenced by the large number of jobs created. Such donor community support may have provided the tacit assurances that enabled commercial markets to extend the credit that created even more employment, which is a primary, positive factor in improved equity in Korea.

4. CONCLUSIONS

Korea began the process of economic development with distinct noneconomic advantages (unrecognized at the time) and with the pall of a devastated physical infrastructure. In retrospect, the obvious massive destruction of the Korean War has proven to be less of a hindrance to economic growth than cultural homogeneity, the Confucian stress on education, the concept (if neglected in the breach) of a meritocratic bureaucratic system, have been advantages.

Korea has been able to attain a relatively equitable income distribution by international comparisons not as a result (until recently) of policy formulation, but because of its cultural background and a foreign-initiated and -influenced land reform. The higher education standard, light industrial base, and the beginnings of modernized agriculture (relative to the systems existing in many postcolonial societies after independence) together with the destruction of assets from the Korean War have proven advantageous to equitable income distribution. The threat of North Korea has proven to be as much of an economic incentive as it has been a military problem.

There have, of course, been errors in priorities, in planning, and in the equity of implementation, and strong forces for continued centralization exist despite public dicta to the contrary; yet the overall economic record has been enviable. Nevertheless, a price has been exacted for such growth in political and social terms and economically for various elements of the population at different periods. Stress is likely to continue. Participation has been severely restricted; but economic and, to a lesser degree, social mobility have been evident. The country has become economically unified but regional income and investment disparities still exist.

The unique circumstances of Korean culture and history and the events surrounding its growth preclude the wholesale adoption of the Korean model of development, or indeed any of its inter-

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connected components, to other countries. Yet, certain features stand out from which one may abstract generalized conclusions about development and the roles of donor agencies and from which one might attempt to draw lessons that might improve the management of the development process. These issues are the subjects of the next two sections of this essay.

4.1 Aid Effectiveness

The most prosaic "definition" of effectiveness is limited to funding issues. It has certain credibility only internal to organizations that view their essential--as opposed to titular--function as spending funds efficiently and completely and in a volume prescribed by internal demands. Such a narrow definition implies the following evaluative questions: (1) were the funds allocated for projects or programs obligated in an expeditious manner for the purposes agreed upon; (2) were these (narrow) purposes achieved according to the prescribed rules; and (3) if a loan, were the funds repaid according to agreement?

This definition is not adequate, but it is important, especially to bilateral donors, given that the first (and most obvious) aspect of assistance may be the overall volume of aid that is set and promised at high political levels. Thus, there is a certain relief within a bureaucracy when the allocated funds are obligated, when the donor performs well, and when loans are repaid.

In this sense, Korea has been a model recipient for two decades. The Japanese have commented on the total effectiveness of their aid program and regard Korea as the premier aid recipient in the world in these terms. The Asian Development Bank has also noted that the projects have been implemented in an exemplary manner, and in their analyses such terms as "highly satisfactory" performance are quite common. Funds have been used at rates almost double the average for other countries. All World Bank evaluations have also expressed these themes. When there has been delay or cost overruns, and these have often occurred, these have often been a product of the donor's bureaucratic system rather than recipient inefficiency, or of inflation due to external factors, such as the international rises in the price of oil. There have been delays in innovative projects, but by definition such innovation is likely to lead to slow implementation.

Because the United States was the longest and overall the largest donor, and the only one that bridged the gap between the relief, rehabilitation, and import substitution phase of Korean development and the more dynamic and successful export promotion era, the American experience is mixed. It is overly simplistic to categorize an era in a few words, but it may be said that in

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the period prior to 1961, assistance was generally not effectively used and Korean performance was poor overall. It can also be cogently argued that donor performance was conceptually limited to a rather narrow view of Korea's potential, and one that served the donor's interests perhaps more than the recipient's. After 1961, except for an initial period of about 2 years when relations between Korea and the United States were quite strained politically (and indeed economically), that aid relationship was generally very effective until concessional assistance stopped in 1975. Not all projects supported by the United States succeeded; some advisory projects failed, and those that were successful had varying degrees of effectiveness. But the argument can be made for the latter period that the primary responsibility for not reaching specified goals may well have vested with the internal donor process in setting unrealistic targets and the articulation of specific and inflated goals and purposes as aspects of a sales document, the credibility of which was limited to the donor's internal review procedures rather than the objective conditions facing the recipient.

In summary, Korea has been an exemplary recipient in terms of the narrow definition of "aid effectiveness." Because "aid effectiveness" deals essentially with the expenditure of funds and the physical construction of facilities, the total scope of development aid is ignored in this definition. It is therefore necessary to review the Korean experience in technical assistance, training, and policy dialogue and to determine how Korea has fared in these and other categories.

4.2 Technical Assistance and Its Effectiveness

Technical assistance in Korea is a broader concept than its literal definition indicates, and it has had several overlapping functions that varied in importance over time. It has been used to provide highly specific, technological assistance either for shorter or longer periods, suggestions or guidance on policy issues transcending projects or sectors, and moral support for both donor and recipient.

From the recipient's perspective, technical assistance has been used internally by one individual, branch, group, or ministry to strengthen it internally within the Korean Government or institution. It was sometimes viewed as providing additional internal prestige to an institution or even a point of view as well as assisting at some substantial project level. It was also at various times considered the means through which the donor would make available funds, training, surplus property, or other benefits in which the recipients or their institution were primarily interested. Thus, the recipient's advocacy of technical assistance was sometimes a lever with which to extract additional

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resources from the donor. Each of these uses was legitimate at the time.

Technical assistance was also useful to the donor, some times also as a lever in either the field or headquarters. When there were considerable doubts about the capacity of an institution to manage a project, when some oversight was thought to be desirable, when real technical advice was required, or when the bilateral donor wished to avoid the bureaucratic onus of monitoring the project with its own staff, technical assistance personnel could be brought in under contract to fill the gap. There was also a certain belief, ill-founded in the view of this author but prevalent in Washington, that in the United States contract technical assistance through an American university (especially a state-supported one) would help establish a political clientele for continued appropriations for the foreign aid bill.

Long-term resident technical assistance staff at the project level were subject to considerable stress because of language and cultural factors. A review of the "End-of-Tour" reports, which once were required of all USAID technical assistance advisers, reveals patterns that lead to the inescapable conclusion that, project-level understanding of the Korean language and the operation of the Korean bureaucratic culture was essential to effectiveness. These factors were less important, as we will see, at the policy level because counterparts at policy levels usually had international training. In projects, however, the counterpart Korean administrators were generally at a lower level and, at least in the earlier period, were less likely to be educated abroad and thus know English.

The capacity of the Koreans to absorb English (or at least to attempt to speak it) even without being trained abroad was remarkably effective compared, for example, to Japan, although admittedly there is no statistical evidence for this. Yet the methods of language instruction, which need not concern us in this paper, were generally so poor as to prevent any except the most talented from speaking it by the time they assumed positions in the public sector. The evidence for this is clear when a review is made of training programs that were designed to train Koreans in the United States. The delays in such programs were invariably related to the trainees' knowledge of enough English prior to their departure to pass examinations so that they could function effectively abroad.

Foreign advisers were often confused about the operation of the Korean bureaucracy and unclear on how to function within it. They soon realized that one element of a successful project was the personal relationships that had to be established with the counterpart personnel. Because few technical assistance advisers knew anything about Korea before they came and even fewer had a command of Korean, much of the advice was not effective.

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The U.S. experience in Korea demonstrates that generally the Koreans regarded foreign technical assistance personnel as reinforcing the developmentally progressive views of Koreans within the bureaucracy. Without the moral encouragement and the financial assistance that went with the technical assistance projects, foreign personnel would have been far less effective. Conversely, on some projects in which the sole contribution of foreign assistance was technical, as opposed to capital or training, it was likely that the advice would have had less impact.

Overall, in the early period before there were many technically trained Koreans, technical assistance staff provided vital advice on matters that ranged from soils to textiles. Insofar as they acted, rather than solely advised and trained staff on the job, they may have been effective. For example, when AID had advisers attached to the office of every provincial governor in the early 1960s, many were regarded as eminently successful insofar as they assisted those governors (mostly military officers in that period) to attain targets set for their provinces by the central authorities. It is likely that any lessons that might be learned from this early period in Korean development would be more germane to some of the African nations that still lack trained manpower.

Today, for any country in which development progress is being built on a firm but narrow, technically skilled group, an alternative to long-term resident technical assistance is the development of links with the international centers in fields such as agriculture or other types of foreign institutions that could provide rapid, short-term responses to articulated technical needs in the society. It is likely that the shorter residence periods will better focus utilization of these personnel while they are there, and that higher level and more acceptable advisers will be available for these shorter periods. It is important that these links be continued beyond the rather finite and constrained period of a project, and funds might be provided from donors for this purpose.

When technical assistance advice was linked to technical issues, as opposed to those of policy, advisers could play an important role. In other words, when the Korean Government had decided on a general policy direction, technical assistance could be employed to further Korean goals so that the results were likely to be appropriate. The most influential example from Korea is that of interest rate reform in 1965, which substantially raised rates on local savings deposits, thereby causing a

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large but hidden supply of savings to come into the institutional lending mechanisms. It was profoundly successful.[128]

The record, however, is replete with examples of "failed" attempts by foreign advisers to affect policy when those suggestions were not consonant with Korean Government interests as perceived by those wielding power. The Korean Government was prepared to make policy shifts when it was deemed to be in its own interests to do so. The magnitude of funds in these cases was immaterial. Greater continuity of host country personnel is also more likely at the project (technical) level than at the policy level. Too often advisory services failed because the higher officials who initiated the request for such services were transferred and new officials were less committed to the concepts. If the Korean experience is consistent with that in other countries, then the general rule would seem to be that technical assistance will likely be successful when such assistance is strictly technical and is perceived to be in accordance with the direction government is already taking. Foreign advice that is perceived to diminish or to dilute support for the regime will not be implemented until that government determines it is in its interest to do so. If Korea is an example, then the magnitude of foreign assistance in such efforts is irrelevant.

Conversely, when foreign technical advice supports the policy decisions underway, this advice will generally be followed and funding levels might speed implementation. The formation of the Office of Rural Development in Korea on the advice of foreign technicians was an important bureaucratic innovation in Korea, for it linked agricultural research and extension. It was also consonant with the Park Government's attempt to unify administration for more effective control.

On the other hand, for some 15 years advisers suggested to the Government that the National Agricultural Cooperative Federation be democratized, decentralized, and turned into real cooperatives, but there has been no such action, for the cooperatives are an integral arm of Government power in the rural sector. Although advisers had early suggested that agricultural pricing policy should be revised and that farmers should be paid

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[128]The interest rate reform "was the key factor in the drastic improvement of the financial interrelation ratios. The ratio of broadly defined money (M_2) to GNP jumped to 32.7 percent at the end of 1969 from 8.9 percent five years before. During this period, the volume of time and savings deposits almost doubled every year and constituted the majority of the increase in total domestic financial assets to GNP rose from 25.2 percent to 55.5 percent over the period." (Korea Development Institute, Development Strategy, p. 38.)

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sufficiently for their produce, the changes came only when the Government determined it was in its interest to do so.

There is a third option between the short-term technical project adviser and the long-term resident expatriate: the operation of a resident, technically competent, foreign assistance mission in a country. In Korea, only the United States had a significant presence in this regard (UN assistance was tied to individual projects, while U.S. assistance was more general). Although evidence is limited, it may be concluded that in the period before Koreans were well trained in technical aspects of development, such a mission (probably far less large than the one in place at that time) was justified. When the Koreans became trained, a large mission was not necessary, and it was difficult for an organization such as AID, because of its own internal bureaucratic problems, to staff such a mission with individuals who could uniformly equal the training of their counterparts in the Korean Government.

Missions are expensive to run and difficult to manage effectively. Such bureaucracies tend to create their own internal work load and thus should be kept as small as possible, with autonomy commensurate with their technical capacity. Too often such missions become captives of their headquarters, spending too little time servicing the needs of the local development community and too much time responding to external desiderata.

4.3 Training

In interviews, Korean administrators of a wide range of bilateral projects stated that the most effective part of the program was the international training, which often comprised only a small percentage of the total funds. Although it is possible that some of these anecdotal remarks may be self-serving, they may be valid, as similar comments have been made in a wide variety of countries. The singular importance of training was reinforced by the virtually unanimous views of senior Korean policy-level staff, past and present.

The training of staff who can operate within the bureaucratic milieu of a particular society is one of the major longer term contributions that any aid organization, multilateral or bilateral, can make to a nation at a certain stage of its development.

Korea, since liberation, has produced a substantial flow of self-directed and self-supported individuals, largely from the gentry, who received graduate degrees abroad. In addition, however, some 3,000 Koreans were trained abroad for shorter or longer periods by the United States alone, 86 percent of whom

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went to the United States.[129] Many of these were for short-term, observational courses, although a substantial number were for long-term degree training. Of 2,148 participants trained by AID between fiscal years 1954 and 1962, 15 percent were in agriculture, 18 percent in administration, 8 percent in transportation, and 25 percent in industry and mining. Of these, 46 percent were from government, 43 percent from nationalized industries, and only 6 percent from the private business sector. There were complaints that too few individuals had been trained from the private sector.[130]

The effectiveness of foreign assistance depends on the trained staff of any local institution. It is unfortunate, however, and perhaps unnecessary that the training of key individuals to be associated with projects can only begin after project approval, thus creating a hiatus between project startup and local effective administration. This made the use of expatriate technical assistance necessary (at an earlier stage of Korea's development). Thought should be given to development of staff training in priority fields prior to formal project approval. Although there are obvious problems associated with such an approach, especially when loans are involved, there may be ways around such an impasse.

Senior officials of the Korean Government have persuasively argued that the early stress on training and human resource development by the donor (the United States) was the critical factor in later economic growth, despite this factor's relegation to a rather low priority by Syngman Rhee, who wanted more physical and tangible signs of foreign assistance. U.S. assistance for training abroad and human resource development projects internally were, they have argued, a vital element in the future developmental success in Korea.

A significant gap in the training program of the United States was the absence in the 1950s of any donor attempt to train economists who could later be associated with economic planning, although economists were trained through self-generated or unofficial programs. Although such planning was not occurring within the Korean Government at that time, it should have been apparent that the need for such individuals would eventually arise. It was not until the 1960s, after the military government had started its First Five-Year Plan, that a change in training priorities took place. In this sense, the Koreans were the leaders in this field, whereas the donor lagged behind.

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[129]AID, Department of State, Evaluation Survey of the Korea/U.S. Participant Training Program 1955-1960, September 1963.

[130]GAO, "Report to the U.S. Congress," 1972.

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4.4 Policy Dialogue

For a dialogue to take place on development policy, a peer relationship between the two nations or individuals is required. What one may lack in training or knowledge of the international economic scene may be compensated for by other, often national-specific attributes. The dialogue between Korea and the United States, the oldest and largest donor, was often acrimonious at the beginning and toward the end of the aid relationship, and generally productive over some issues in the middle period.

The early economic aid relationships of the 1950s were marked by often bitter disputes over exchange rates, money supply, uses of local currency generated by foreign imports supplied under aid, corruption, and stabilization programs. It was not fruitful. Just prior to the end of the concessional aid relationship with the United States, there were the beginnings of disputes about trade, quotas, marketing agreements, and dumping issues. Many of these still continue and are likely to increase. In the mid-1960s, the relationship and dialogue were generally productive.

One characteristic of this policy dialogue stands out: foreign observers of Korea's economic growth have consistently underestimated the capacity of that Government to mobilize internal support for its program and reach its targets. If one assumes that these advisers were well aware of the international economic factors affecting Korea's potential growth, then their failing must have been in misinterpreting the internal Korean scene.

Policy dialogue is not necessarily advocacy of a view that is solely externally generated and is not held by a significant number of officials within a host government. It is rather more effective to support those progressive policy views held by a portion of the recipient bureaucracy, so that foreign assistance on economic policy is a lever to be used not by an outsider, but by an insider in internecine policy debates.

The Korean case demonstrates this point. Policy changes were made when such changes were pushed internally and were perceived to be in the interests of the regime in power and not directed toward the dilution of such power. There is considerable evidence, for example, that the $300 million structural adjustment loan by the IBRD of October 1983 stipulating certain policy shifts (such as liberalization of imports and the elimination of grain subsidies by 1986) stimulated reforms that important elements in the Korean Government were already prepared to make, and at best accelerated the process of inevitable change. This should not be surprising.

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Conversely, as has previously been noted, policy recommendations from outside, when perceived to be somehow detrimental to the interests of the government in power, were ignored whenever possible. Overall, the Syngman Rhee era demonstrates this axiom as do lack of reform of the cooperative movement, early efforts to liberalize grain prices, and banking and import reforms in the earlier periods.

Conversations with individuals knowledgeable about the period indicate that in the 1960s Korea participated in standby agreements with the IMF not because the money was really necessary, but because the agreements enabled the Government to assure the international community of its creditworthiness. There were cases, especially in the mid-1960s, when assistance levels in any one year were tied, within limits, to modest types of reform, but these reforms although important, never questioned the power base of the regime. One AID study indicated that Korean "economic ministries used the conditions precedent of the program loans (in the 1960s) to counteract inflationary programs or policies proposed by other ministries. The program loan provided Finance Ministry economists with an excuse for unpopular policies they wanted to carry through anyway."[131]

The issue through much of the 1950s and 1960s was stabilization. In the later 1960s, the United States used the "program loan," amounting to about 3-4 percent of the total aid package in any year, as an incentive to the Koreans to meet several highly specific targets in relation to stabilization. "The program loan was introduced as a carrot, a marginal element of assistance, but one specifically aimed at stimulating better stabilization performance."[132] The concept seems to have been to delay funding if targets were not achieved (performance in meeting one objective could be substituted for one not met), not to withhold funds indefinitely.

The U.S. position, however, was complex. "Moreover, since our [U.S.] political objectives could not permit real damage to the Korean economy, and since funds were never unlimited, we had to use available funds for dual purposes: to withhold for punishment and then making [them] again available."[133] The failure to meet targets and thus the temporary denial of support under program loans amounted to relatively small reductions. For

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[131]Elizabeth Carter, "Korea," in The Use of Program Loans to Influence Policy, AID Evaluation Paper 1A, March 1970. Confidential (since declassified).

[132]Ibid.

[133]Ibid.

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example, in 1967 the $15 million loan was reduced to $12.5 million. The important force may have been the inchoate threat of public disclosure of such failures, which was not made, and not the funds involved, as the regime at that time was unpopular in many circles and had not yet established its economic legitimacy. In addition, the AID study concluded that "knowledge that the United States had withheld aid for poor performance might weaken Korea's credit standing and ability to borrow from other lenders."[134]

The Korean-American relationship, as characterized in the study quoted, may not have been as confrontational or monolithic as presented. By 1970, in any case, the study noted that "what started as a largely U.S. program, accepted by the Koreans as necessary to get the required aid, became a joint program, and now is becoming increasingly a Korean program. If leverage and its use has diminished, the need for it has also decreased."[135]

The effects of training and of the constant dialogue of expatriate advisers over long periods cannot be measured, for the success of the policy dialogue occurs when the changes are internalized within a government and are not perceived to be of external initiation. As such, it is virtually impossible to evaluate such policy changes and pinpoint their origins, although anecdotally it is evident that in some cases it was important. The degree to which such policies are internalized is probably directly correlated to the effectiveness of the changes proposed.

4.5 Food Assistance and Korean Development

Except for high-value, specialty crops and perishable vegetables, Korea today has little comparative advantage in food production. Rice costs over two times the world market price to produce, livestock costs about 1.8 times the Australian imports, corn and soybeans are three and one-half times more expensive and red peppers and sesame six times more expensive to cultivate than those grown in India. Although Korea is now remarkably productive in terms of yields, it has not been able to feed itself since World War II.[136]

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[134] Ibid.

[135] Ibid.

[136] For a summary discussion, see Steinberg et al., Korean Agricultural Services, Appendix D.

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There is considerable evidence that food assistance to Korea was essential to the country at an early period but was later counterproductive. The supply of food, especially during and following the Korean War, was vital to the continuation of the existence of the Republic of Korea. The disruption of agricultural production and the fact that Korea, during much of that period, was a nation of refugees required a relief operation.

After this period, however, food aid produced decidedly mixed results for the Republic, although the program was eminently successful from the vantage point of the donor. Food assistance from the United States is designed to serve general, often contradictory, purposes: rid the United States of agricultural surpluses, create markets for U.S. supplies, support foreign policy objectives, and assist the development process in the country concerned. The program accomplished all of these goals, but to the detriment of elements of the Korean population for significant periods of time.

The food assistance program was designed not only to feed a people who could not be self-sufficient at that time, but to generate local currency that was used to support the overall budget of the Korean Government. The program at various periods in the 1950s accounted for up to 85 percent of all imports, and thus was critical to the continuation of that Government. Through much of this period the Korean currency was overvalued, and thus it was in the interests of the Korean Government to keep the level of food aid as high as possible. (It should be remembered that PL 480, although normally composed of food, did also include significant portions of nonfood stocks, such as cotton and tobacco.)

Food aid enabled the governments of both Syngman Rhee and Park Chung Hee to ignore the inequities in the pricing of rice and barley, placing the economic burden on farmers, while using the funds generated for other purposes. There is some evidence that food aid was diverted for military purposes.[137] There seems little doubt that food aid retarded agricultural pricing reform for perhaps a decade and a half. By allowing "development loans" to be used for importing rice, as was done in the late 1960s and early 1970s, the United States in effect increased the PL 480 program. "This use of AID funds in conjunction with increased PL 480 imports appears to serve as a disincentive for the ROKG [Korean Government] to seek an early solution to problems in its agricultural sector."[138] It is significant that only when internal political factors intervened, and when PL 480

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[137]GAO, "Report to the U.S. Congress", 1972.

[138]Ibid.

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was transformed from grant to loan, did the Korean Government move to change its agricultural pricing policies.

As the types of U.S. surpluses changed, the donor supplied more wheat than rice to Korea. With a growing urban population, this dietary shift may have been inevitable, but it was probably speeded up by the food program. Because it was approximately equally nutritious but less costly, the argument may be made that it was desirable. The effect on Korean production was apparent. As rice prices were raised and as the urban population increased, the acreage in wheat and aggregate production fell. Whereas Korea once had been 36 percent self-sufficient in wheat, it is now 2 percent. Food imports, including grains for human and animal consumption, in 1983 totaled some $2.2 billion, or about 10 percent of total imports.[139]

Although the political goal of food self-sufficiency in general and in rice in particular is often articulated by the Government and reflected in the press, the former will not be achieved, but the latter is possible assuming that consumption of wheat will grow. The goal of a state need not be food self-sufficiency but rather self-reliance, the latter meaning that the state is able to generate sufficient foreign exchange to pay for any food it must import to meet its requirements. Korea can, of course, be self-reliant in food, but its comparative advantage lies in specialized crops rather than in food grains. At this stage, however, it is politically impossible for any regime in Korea to ignore rice production, and pressures from such sources as the United States to rely on U.S. food imports are even more unpalatable in Korea than they are in Japan. Food aid or trade, of course, inherently has internal political ramifications for the supplier, and Korea or other nations in their own self-interest must weigh carefully such external dependencies. Such dependencies have created additional problems for Korea, as witnessed by the rice purchase scandals, pressures on Korea to buy one type of rice (from specific U.S. states) as opposed to a different variety (from another state), as Koreans have distinct tastes in rice. There have also been problems with Australian meat imports.

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[139]Government of the Republic of Korea, Statistical Yearbook 1984, as reported by the Korea Economic Development Institute of America.

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4.6 The Private Sector and the Marketplace

The Government has dominated the private sector in Korea. Historical reasons for this stem in part from the distribution of Japanese assets following liberation, a large portion of which went to government, but, more important, there has been a long and essentially unbroken tradition of centralization and Government control. In general, the degree of Government involvement in the economy statistically has been under-represented, as the Government tobacco, ginseng, and energy monopolies are sometimes included as private sector in national-accounts figures on Korea.

Government involvement in regulating and influencing the business community occurs through both formal and informal mechanisms and is profound.

> The [Economic Planning] Board and the ministries have the power to change, without approval of the National Assembly, taxes, tariffs, subsidies, public utility rates, interest rates, controlled prices of selected goods, and licenses for imports, investment, use of foreign exchange, new business, and so on. And they have wielded this power, frequently....[140]

Yet the private sector is dynamic in Korea, despite this centralized and pervasive public influence. Testament to this comes from the figures on business formation and failure and the rapid growth of the chaebol, as well as manufacturing and exports. Yet this dynamism is one that has been kept within bounds by a Government anxious to achieve its economic (and political) goals, in which the private sector plays an important part.

The Government has intervened in the private sector in a variety of ways, including control over the allocation of credit, the determination (or, more usually, veto power) over senior business staff, and the composition of the corporations, as well as through pricing policies, planning, industrial strategy, and tax policies. The Government has a clear perception of what it wants the private sector to accomplish. Significantly, the business community has not yet competed for political power. The private sector also offers important avenues for social and economic mobility to elements of the population, although the traditional elites maintain control at the top (along with the military).

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[140]Youngil Lim, op. cit., p.10.

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Significantly, in 1983, the Korean Government divested itself of all nationwide commercial banks and reduced its control over daily operations of these banks, granting greater autonomy in personnel management, organization, and budgeting matters.

The Korean Government has taken several steps toward liberalization in the financial sector. To promote competition among deposit money banks, the Monetary Board in January 1982 abolished the system of direct credit controls for each deposit money bank and began conducting monetary policy through reserve requirements, rediscounts, and open market operations. The system of preferential lending rates of commercial banks and the guidelines for professional lending were also eliminated in 1982.

The Government has maintained steadfast control over the composition of exports and the nature of heavy and defense industries (import substitution efforts) through the allocation of credit, because most Korean private firms are heavily in debt. This pervasive Government control is somewhat relaxed after export goals are articulated. If an enterprise engages in exports, "most government restrictions are substantially relaxed or become irrelevent. Put another way, under this system an exporter operates in a nearly free market and enjoys access to the world market prices of inputs and outputs.... In contrast, the incentive system has penalized domestic sales."[141] Export activities remove the strictures on the relatively small internal Korean market, and thus, "The export incentive system directs entrepreneurial energies to the wide-open world market, where one firm's gain does not reduce the sales opportunities of other firms--the zero-sum nature of the domestic firm is avoided."[142]

The monopoly on institutional credit has raised curb market lending rates, and the gap between curb market and institutionalized rates is so great that official credit has taken on the character of subsidized credit internally, and in exports it more nearly approximates world credit rates. It is remarkable that the 30 largest Korean firms had 48 percent of total bank loans in March 1984, and the five largest firms (Hyundai, Daewoo, Samsung, Ssangyong, and Lucky-Goldstar) held 24.2 percent of outstanding loans. As of December 31, 1983, the loans of the 30 largest firms represented 457 percent of their combined paid-in capital.

The Government has also regulated prices in a bewildering array of materials, goods, and services. These include the producer and consumer prices of grains, of which rice is the most important, fertilizers, and other consumption goods extending to,

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[141] Ibid., p.18.

[142] Ibid., p.21.

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for example, the cost of accounting services. It has controlled wages in many fields and, in general, controls have been singularly pervasive, although allowing the private sector to flourish within limits imposed by the Government.

As the economy has become more complex, efforts have increased within the Korean Government to loosen the tight reins with which the private sector has been held in check. Especially important has been liberalization of the banking system and imports. These attempts have been strengthened by donors, as well as trading partners, and there seems little doubt that official Government strictures over the private sector will relax in time, but strong vested interests will try to continue control. It is also likely that informal means will be found by the executive branch to control any developments within the private sector that it feels are detrimental either to the growth of the economy as a whole or its political power in particular. Overall, however, the efficiency of the private sector has been the result of entrepreneurial activities. "Government functions as a market-augmenting instrument and, fortunately, was weak in producing a market-repressing or rent-creating effect."[143]

There were complaints that the United States, as primary donor in the 1950s, did not do enough to assist the development of the private sector at that time.[144] Even later, similar sources noted that U.S. funds contributed to Government-controlled industries, thus perpetuating state involvement in industry, and that AID funds, designed to help small- and medium-size firms, went to assist large, well-established enterprises.[145] In retrospect, it is likely that any further efforts that might have been made to help the private sector in the 1950s would have produced little in terms of tangible results. As Korea entered the Park Chung Hee era, there was considerable excess capacity in a wide variety of manufacturing fields, but the overvalued exchange rate discouraged exports. The argument that more representatives of the private sector might have been trained is, however, a valid one.

Donors have materially assisted the development of the private sector, but none has seemed determined or able to liberalize the policies of the Government toward the private sector overall beyond new banking and import policies, and then only after many years of quiet negotiations. Foreign concessional assistance, therefore, has made a positive contribution to the growth of the

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[143] Ibid., pp.66-67.

[144] GAO, "Audit Report," 1957.

[145] GAO, 1972.

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private sector, but has had only a marginal influence on policy toward it. The private sector, in turn, has responded efficiently and well toward foreign assistance credits that were made available by the donors. Relending by banking institutions has been efficient, with admirable repayment rates and only a very small percentage of overdue loans (in contrast to the 1950s).

Donors, especially through the structural adjustment loan of 1983, will have an effect on grain prices, which will over time bring rice costs into line with international prices, although this may significantly lower rural incomes and may (for internal political reasons) take longer than anticipated.

4.7 Aid Levels and Aid Effectiveness

What is the relationship, if any, between the levels of concessional foreign assistance and the effectiveness, if any, of such support? The question is simplistically phrased, but the issue is complex and, of course, varies with time and circumstances.

The level of concessional assistance can be critical to the continued existence of the state, as it was in Korea in the 1950s. It can be vital in countries in danger of default. In between these extremes, however, the levels of foreign assistance, if Korea is a typical example, have far less correlation with the effective use of foreign aid than do a number of other factors.

Concessional foreign assistance has been of modest proportions compared with commerical flows since the early 1970s. The complete halt of concessional aid (including all assistance from the World Bank, Asian Development Bank, and Japan) would probably have had only the most marginal statistical effect on the economy, although if caused by dissatisfaction with Korean performance would no doubt affect commercial lending. On the other hand, increases in such assistance within reasonable limits would probably also have had little statistical influence on Korea. The effectiveness of foreign aid thus is not necessarily measured by its amount, although under certain (relatively extreme) circumstances this becomes important.

Numerous Korean officials have commented that the value of foreign assistance, especially that of the World Bank in the later period and the United States earlier, was the influence that the donor brought in support of certain institutions or concepts within the Korean Government. The interest and views expressed by the donors, both in policies and projects, enabled some Korean technocrats to convince the top executive and legislative branch leadership that certain policies and

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approaches were important. This seems to have been a highly significant factor, at least to the recipients.

External analysis of the world economy and how Korea fits into this picture, together with a view of the Korean performance and goals seen in comparative perspective, were other important aspects of donor involvement transcending support levels, as explained by Korean officials.

Donor support can help build institutions, such as those in the financial sector, and can help to train individuals at costs that are exceedingly small (even if rising) in comparison to their impact. Thus, the level of support is less important than the types of assistance, the acumen of the advisory services (when they are perceived to further Korean goals), and the prestige that is attached to donor activity. Insofar as donor assistance introduced new technological processes, in the Korean context these were important beyond the level of support provided. There is an additional factor: continued donor support generates confidence in the economy in international (and local) commercial circles and probably, in some unquantifiable way, contributes to a major degree to nonconcessional lending. Such donor assistance may be perceived by commercial lenders or investors as lowering their risks. This attribute of donor assistance should not be overlooked, for it does not appear on the balance sheets of economic growth.

Overall, the level of support from foreign donors to Korea, except for the initial period after the Korean War, was less important than its indirect effects, which continued, and still continue, to be substantial. Thus, the rationale for bilateral donor phasing out of concessional assistance to countries solely on the basis of such ephemeral or questionable statistics as per capita income is highly suspect, for the importance of such efforts transcends the volume of aid and the immediate economic impact of such support. Such phaseouts, as in the U.S. withdrawal of concessional assistance to Korea or Taiwan, are likely to be motivated more by the internal political requirements of the donor (at least in the United States) than they are by the objective conditions in the recipient nation.

Donor coordination in the Korean context has not appeared to be a problem, most importantly because the depth of Korean planning and implementation competence is so great that donor projects can readily be accommodated in the bureaucratic process, in contrast to the situation in many countries. The small number of significant donors has no doubt made the task easier. Central planning conceptually has allowed donors to meld their and Korean priorities, which is in distinct contrast to the situation in many countries in which planning consists of a catalogue of many disparate, discrete projects without adequate priorities attached or interrelationships considered.

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AID comments on the initial aid group meetings on Korea in 1966 and 1968 indicate that these meetings were formalistic and that important issues were either not raised or, if raised, not resolved. Although donor coordination through such annual or biannual meetings is useful, it evidently is not sufficient for either policy or project-level coordination.

The issue of the tying of foreign aid to the purchases of goods and services of the donor has been important in the past in Korea. There have been accusations that early U.S. assistance levels to Korea were not truly reflective of the support provided, because U.S. goods and services were overpriced. At the same time, some of these goods were of third-country (especially Japanese) origins.

The issue today is focused on Japan. Japan has untied most of its aid, but the economies of scale, location, and the effect of linguistic experience (since Koreans over 45 years can speak Japanese, and Japanese is easier for a Korean to learn because of structural similarities--the reverse is obviously also true) all have meant that Japanese goods, services, and training naturally predominate in the Korean foreign assistance marketplace. It is unlikely that this will soon change. Although the Japanese role in Korea must be delicately managed (an issue recognized by both governments), the Korean trade deficits with Japan are likely to continue and Japan will also dominate the Korean aid picture.

4.8 Technological and Institutional Factors

Foreign assistance in the early period of Korean growth, prior to the expansion of the export drive, was the principal means through which technological improvements were introduced. This occurred through the provision of goods, technical advisory services, and perhaps most importantly for the longer term, through training of Koreans overseas.

As exports expanded and the volume of concessional assistance diminished relative to commercial flows, the means to acquire technology shifted. Advisory services continued, but at a reduced rate. Institutionally generated (as opposed to privately sponsored) overseas training also diminished, although the number of Korean students presently (1984) studying in the United States is at one of its highest levels. Technological change has come about less through investing than it has through trade. As the Koreans produce for export on specifications stipulated by foreign buyers, the technological improvements have quickly been absorbed into the Korean industrial economy.

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Although foreign assistance can be credited for assisting the establishment of some institutions critical to the development process (such as the Office of Rural Development, combining agricultural research and extension; the Korean Institute of Science and Technology; the Korean Development Institute; and the Korean Educational Development Institute, to mention a few), the impetus for the majority of institutional innovations came from within the Korean Government. The continuing foreign role through such donors as the UNDP is to strengthen such organizations. The wedding of technology and institutional growth is apparent in the increase in the percentage of GNP directed to research and development--now less than 1 percent but scheduled to rise to over 2 percent. The institutional focus for such research, however, will not be in the Government-sponsored multitude of parastatal research institutes but in private industrial organizations directly focused on furthering manufacturing and export goals.

The donor role in both technology and institutional development has been important and generally effective in the past but has been superceded by the growth of private sector and trade functions. When Korea began its export drive, its institutional structure was essentially in place, in contrast to the situation in many other nations.

Donors have asked whether project, sector, or program lending or assistance was the most effective or efficient method of assistance. The issue cannot be resolved simply, for at various levels of development, and in varying circumstances, as well as under certain types of donor constraints, each, or a combination of all, may be appropriate.

Project assistance, when it was effective and accomplished its discrete ends, was focused on specific, limited objectives. It thus proved useful when there was overall agreement on sectoral goals or purposes. Sector or program lending, usually larger, was at a broader level of goal or purpose abstraction, and could be more important in furthering mutually agreed-upon objectives. Program lending or (in the earlier period) grants would, one would assume, have greater policy impact, and indeed this may have been true when such support furthered Government directions already established. It was less effective when there were policy disputes.

Thus, there are few generalizations that can be drawn from the Korean experience on the most appropriate mix of project, sector, or program lending or grants. What seems evident, however, is that mutually agreeable sector lending or program goals can be reinforced through discrete projects but that good projects may not necessarily lead to sectoral policy reform. Thus, the most appropriate mix of these three elements is bound by the objective conditions of the recipient, the donor, and the

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overall interaction between the two, and remains an enigma without universal application.

5. CODA: LESSONS FROM THE KOREAN EXPERIENCE

The successes of Korean growth and, perhaps more important, its sustainability despite a variety of adverse economic and political factors have prompted donors and the Korean Government to espouse Korea as a development model, the former to demonstrate their own efficacy, and the latter for its own internal and foreign policy reasons.

This simplistic approach is, however, unlikely to be attractive to development specialists--in contrast to those in the popular press--who rightly see it as a complex process highly dependent on singularly Korean factors and the world economy at a particular point in time.

This does not mean, however, that lessons cannot be drawn from the Korean experience regarding factors influencing or affecting recipients and donor capacity. It should be remembered that all foreign donors, except the United States, began their operations in Korea after that country had set its economic house in some sort of rational order. These donors have thus been spared the earlier, less efficacious period of Korean history when economic assistance and its use could never have been conceived of as a positive model.

5.1 The Developing Nations

From the viewpoint of the recipient of foreign aid, Korea demonstrates the need for strong political will with economic development as an articulated, critical priority for the political elite. It also validates the concept that the delivery institutions to spread these ideas must be in place or first must be built. Implementation of programs and projects then becomes exceedingly important. This is a factor on which many countries founder; without sound implementation, the most sophisticated and elaborate planning will fail.

To be successful in influencing policy, Korea's experience points out, it is important to work with the host government bureaucratic structure to elicit change that is perceived by that government as in its own interests, preferably originating internally. Korea demonstrates that policy dialogue is useful and important over time, even if its influence cannot normally be quantified, but that it will not produce positive results unless it somehow furthers the overall direction that the state is

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taking and is regarded as being in the interests of those in power.

The process of change can be speeded up but is unlikely to be altered radically until the government is prepared to make such a move. It is also unlikely that significant alteration in the amounts of assistance will affect the courses of such change, although it might well affect the technical aspects of some predetermined decision.

Although funds may not be completely fungible, there is enough flexibility in the foreign aid process that assistance will not necessarily deter a country from pursuing its own developmental goals even though foreign assistance specialists may advise against such moves. It is only when a country reaches a serious economic strait bordering on default that major pressures can be placed on those societies.

Foreign aid organizations prefer to consider themselves pristine and divorced from domestic politics. Although there is more justification for such an attitude by multilateral agencies, there seems to be confusion between providing assistance for political purposes (often the rationale of bilateral donors) and the intimate association of the internal economic and political processes in any state. This association must be understood for aid to succeed.

Korea demonstrates that land reform is likely to be the single most important criterion for overall equitable distribution of income in a heavily populated, land-poor developing society; yet it is unlikely that many nations today are prepared to undertake such a broad redistributive approach to income and power. Under such circumstances, the Korean experience points to a likely widening of income disparities that may only be offset by vast employment opportunities and a major concentration on improved productivity, which seem essential to increasing wages in this highly competitive world situation.

Korea offers some disquieting lessons from the agricultural sector. Ignored for so long, agriculture in Korea began to be extremely productive when high levels of diverse types of subsidization were introduced. At one point Korea recognized that this level of support could no longer be maintained. What is the lesson for other nations? Can they (or the donors) supply such subsidization if that is what is needed to get agriculture moving? If agriculture is to lead development, a path advocated by some donors but which Korea did not follow, this raises serious developmental issues. Yet the export model, Korea's path, may have occurred at a unique time in history and may not again be so easily replicable.

Pricing policies, as Korea illustrates, can be an important means by which to provide incentives for growth. As Burma

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illustrates, however, positive pricing incentives can be replaced by implicit or explicit threats of coercion. In Korea, with administrative delivery systems in place, pricing policies worked. Korea also demonstrates that these incentives, if involving extensive subsidies, are unlikely to be maintained indefinitely.

If pricing policies have been effective, the pricing of foreign exchange has been a critical factor in growth. Thus, the maintenance of a realistic foreign exchange rate has proven to be of the utmost importance in exports, an obvious fact but one that seems to be ignored in many societies.

The growth of trade, however, and of per capita income should not necessarily result in the complete halt of concessional assistance, which performs other functions. Such aid attracts commercial investment and lending, provides comparative analysis of the recipient nation's economy by outside observers, is in a sense a window on the world economy, strengthens elements within the host government bent on reform or progress, and thus has greater utility than the simple measure of funds provided. Foreign assistance can be a risk-taking endeavor that prompts increased national investment in enterprises, the economic rate of return of which may be delayed while the effort may be quite innovative. To tie concessional assistance to per capita GNP is rigid and unimaginative. Why, then, does the Ford Foundation operate in the United States?

Korea also illustrates that the private sector can be effective in many ways, even if subservient overall to government, and that a public sector is not necessarily inefficient. The experience of the earlier Rhee period also supports the view that if the foreign assistance focus is directed solely to the private sector when other factors are not in place, such assistance may be ineffective or be extremely slow in producing economic results. Private sector support requires careful assessment of capacity, both political and economic, not simply the application of fashionable programmatic formulae.

Korea also shows that education has been a powerful force in supporting economic growth and that this may be one of the most effective means by which donors can provide assistance to a developing nation.

Food aid may prove vital to the effective functioning of a government and the feeding of its people, but Korea provides evidence that it can also be instrumental in slowing the process of agricultural reform. There may be tension between the shorter donor objectives in providing food aid and the longer term goals of both the donor and the recipient.

Korea also illustrates that technology is not simply something that can be transferred, except perhaps in export pro-

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cessing enclaves, but must, with policies, be internalized and adapted to local circumstances.

5.2 The Role of Donors

The role of donors--both bilateral and multilateral, although there are significant differences in issues of effectiveness--not only reflects conditions in any particular recipient nation, but is also based on developmental or organizational hypotheses, articulated and inchoate, that shape their operations.

There is, for example, a general tendency to regard the answers to development problems as universally applicable. Although there are, of course, general propositions that may apply to certain conditions or actions at various stages of development, however defined, these general laws are circumscribed by the local milieu, which may radically alter the applicability or suitability of generally prescribed development solutions. Koreans have accused some donors of a formula-type approach to analysis of Korean problems when these were not applicable. This attitude results in donors regarding their staff as equally competent to work on sectoral development problems in any society. Emphasis on technical specialization alone presents the danger of donors neglecting the vital noneconomic factors that have been demonstrated to have been so important in, for example, Korean development success. Donors then should reexamine their administrative patterns to ensure that both disciplinary and geographic area competence are represented in any country analysis. The implications for internal bureaucratic changes, if this issue is recognized, are important and may be traumatic. This may be why such issues have rarely been addressed by some donors.

It is evident that there is some confusion among senior Korean officials about the rationale of various types of donor support and the purposes of each. Korea moved from U.S. nonproject assistance, including food aid, to project grants and loans. The IBRD has provided first project support and then two structural adjustment loans. There is a feeling in Seoul that sector lending may be the next mode, and there is legitimate confusion in certain Korean circles over the rationale for each.

Project lending implies discrete activities, manageable within specific bureaucratic and specialised agencies. Structural adjustment loans, larger by far, are managed by the central planning agency of the government. Sector lending is in some sense a median position. Although it is generally true that sector or structural adjustment lending allows easier coordination of broader policy issues than projects, the general position seems to be that neither sector or program lending nor structural adjustment loans (except for emergency considerations) will force

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a nation to agree to policy changes that are perceived to be detrimental to their conception of the distribution of power. At the level of Korea's development, however, major sector or structural adjustment lending may be more appropriate not because of the policy changes that may be required by a donor, but because it is administratively more efficient for both donors and such recipients.

Donors seem bound by the mystique of aggregate data and the issue of the concessionality of assistance. Although analysts recognize that such issues are often of limited meaning, interest rates and resident aid programs are often determined on the basis of such factors. Yet few countries have such balanced development that foreign assistance on concessional terms might not be desirable for specialized, relatively high-risk undertakings.

Finally, what has been the relative experience in Korea between bilateral and multilateral donors? Korea in this instance may not be typical, because of the two bilateral donors, Japan has intentionally avoided a high-profile, policy-oriented role, and the United States was important because it was essentially the only donor in the early period and because economic assistance and military security were intimately intertwined in the views of both the United States and Korea.

Bilateral donors are often bound by their own foreign policy considerations (which were important in determining the level of U.S. assistance) and even internal donor political factors (PL 480, and the phaseout of the AID program), and thus are especially vulnerable. Multilateral organizations, however, can be bound by bureaucratic or operating procedures that effectively restrict the breadth of their developmental approaches. In other words, all development agency bureaucracies suffer from defects. It is likely, however, that multilateral organizations can more easily transcend their defects than can bilateral donors, at least those with pervasive nondevelopment interests.

There is, however, a role for bilateral donors, especially at earlier stages of development when administrative competencies in host government institutions are limited, for they can perhaps more easily supply resident staff with greater stakes in project success than have contractors without longer range commitments to developmental growth.

If, however, multilateral donors are to maintain the prestige they have attained, the quality and candor of their economic, social, and political analysis need to be strengthened. Bilateral donors can no longer afford to do the economic analyses that the multilateral donors do. It is therefore essential that such analyses be as open and encompassing as possible.

The success of Korea is undoubted. Its accomplishments offer hope for other nations, but its lessons must be carefully

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extracted from those considerable, and not yet fully explored, factors that have made Korea unique.

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